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BusinessWeek

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Miranda Azzam, college recruiter for Aflac, at Aflac headquarters

PLUS: BP'S BIG FIND WAS NO ACCIDENT

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SEPTEMBER 14, 2009 | BUSINESSWEEK.COM



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Andy Inglis, BP's chief of exploration and production

IN DEPTH

THE BEST PLACES TO LAUNCH A CAREER

032 | Yes, it's a tough time to find a job. But there's a recession dividend for those who beat the odds: more responsibility and a chance to climb the ladder fast. Our fourth annual ranking shows where to find the opportunities. Plus: Why new grads love Cisco. |BW|

WHERE HEADHUNTERS FEAR TO TREAD

042 | Some companies are revered for honing executive talent that can thrive anywhere. Yet others—including successful outfits like Coca-Cola and Intel—don't seem to cultivate leaders others want to poach. The companies that raise red flags with recruiters. |BW|

BP KEEPS ROLLING THE DICE

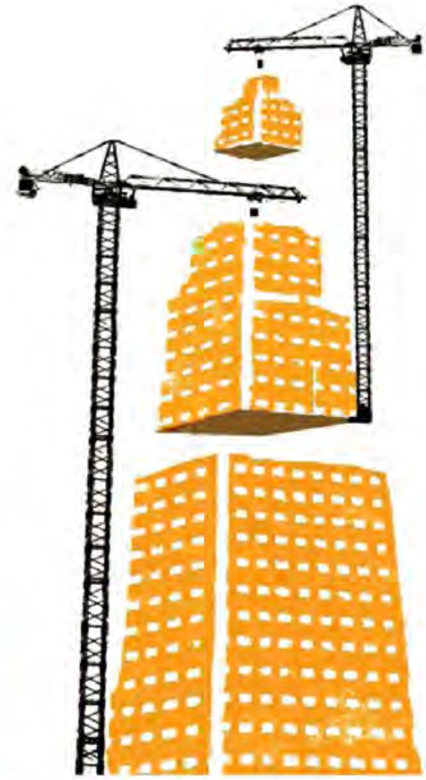
046 | The oil giant has struggled recently, the result of battles with its Russian partners and a series of accidents in the U.S. Now, though, a major strike in the Gulf of Mexico suggests that the company's high-risk, high-reward strategy is paying off. |BW|

(COVER) ANN STATES; (ABOVE) ROBERT SEALE



TIME WARNER, BARGAIN HUNTER?

The media company has $7 billion in cash and an increasing focus on TV and film, yet CEO Jeffrey Bewkes has made no deals in recent months. Disney's acquisition of Marvel Entertainment could put pressure on him to pull the trigger. | BW | PAGE 026



COMPANIES START SPENDING

Some once-scared corporations that had cut capital outlays are starting to spend again. It's a revival that could be the key to a durable economic recovery. | BW | PAGE 018

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077 **COMPANY INDEX**

Jack and Suzy Welch are off this week.

(LEFT) DAMON WINTER/THE NEW YORK TIMES/REDUX; (RIGHT) RICHARD MIA

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PETROBRAS

THE BUSINESS WEEK

EDITED BY HARRY MAURER & CRISTINA LINDBLAD



BP's Thunder Horse rig: The company just made a new strike in the Gulf

14.09 million

Seasonally adjusted annual rate of car sales in August

Data: Autodata

STRATEGY

BLACK GOLD BONANZA

A gusher of news flowed from the Western Hemisphere's oil patch this week. On Sept. 2, **BP** trumpeted a "giant" strike in the Gulf of Mexico. While the company said it's too early to state how much oil the field holds, analysts estimated it could boost BP's reserves by 7% to 10%. Two days earlier, **Brazilian President Luiz Inácio Lula da Silva** proposed new policies—to be voted on by the legislature—that would govern development of a deepwater field thought to hold 8 billion to 12 billion barrels. Lula said state-owned **Petróleo Brasileiro** would be the sole operator and that while foreign oil companies will be welcome to participate, a new production-sharing regime will ensure that most of the income "stays in the hands of our people." Over in Ecuador, a 15-year-old, $27 billion environmental lawsuit against **Chevron** that was nearing resolution hit a snag when the U.S. oil company released videos and transcripts showing the case's judge discussing an apparently already-decided guilty verdict with two men posing as contractors eager to win work following the damage award. Chevron demanded that the judge be removed from the case. And finally, **Baker Hughes** said on Aug. 31 that it'll buy **BJ Services** for $5.5 billion in a bid to become a one-stop oil services shop. BJ specializes in pressure pumping, the process of injecting high-pressure water, gas, or chemicals into reservoirs to boost their output.

| BW | PAGE 046 "BP Keeps Rolling the Dice"



Iger coveted Marvel's 5,000 characters

SPIDEY, MEET MICKEY

Walt Disney CEO Robert Iger went brand shopping on Aug. 31, agreeing to pay $4 billion in cash

Hatoyama declaring victory: He'll push consumer-friendly policies

(FROM TOP) MARC MORRISON; DAVID STRICK/REDUX

and stock for **Marvel Entertainment,** the comic book empire that has become a Hollywood powerhouse with movies based on its superheroes. The deal was driven by a plan to marry Marvel's more than 5,000 characters with Disney's prowess in consumer products, theme parks, and marketing, according to Disney executives. But Marvel has already licensed movie rights to some of its most popular offspring, including **Spider-Man** and **X-Men,** which leaves Disney with the consumer products, theme park rights, and fat license fees. Others characters now governed by a deal with Paramount, including **Iron Man,** will be available to Disney in a few years.

| BW | PAGE 065 "Money Report: Wolver-Mouse?"

SKYPE FINDS A HOME

Former **eBay CEO Meg Whitman** took plenty of heat for the $3.1 billion purchase of Internet calling service Skype in 2005, since the business proved to have little in common with online auctions. Now her successor is clearing the slate. On Sept. 1, eBay said it was selling a 65% share of Skype to a group of private investors for $1.9 billion in cash and $125 million in short-term debt. "EBay was able to have its cake and eat it too," says **John Donahoe,** who became CEO in early 2008. The deal values Skype at $2.75 billion, higher than many Wall Street analysts had predicted, and lets eBay retain a minority stake. Led by private equity firm **Silver Lake Partners,** the buyers also include **Index Ventures,** one of Skype's first backers, and **Andreessen Horowitz,** the venture capital fund launched by eBay board member **Marc Andreessen** earlier this year.

"Ebay's Skype Sale Looks Like a Win-Win"
businessweek.com/magazine

ECONOMICS & POLICY

SAYONARA, LDP

After 54 years of almost unbroken rule by the **Liberal Democratic Party,** Japan's voters threw out the tired old crowd on Aug. 30, handing the **Democratic Party of Japan** a commanding 308 of 480 seats in the lower house.



ISSEI KATO/REUTERS

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Sprint



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PCWorld

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Coverage not available everywhere. Data plan required. Connectivity dependent upon capability. The 3G Sprint Mobile Broadband Network reaches over 253 million people. Offer not available in all markets/retail locations or for all devices/networks. Other restrictions apply. See store or sprint.com for details. *PC World's* tests included 13 major cities with more than 20 tests per city from all regions of the country for each provider's 3G service. Testing was one minute in duration, and network performance can be highly variable from neighborhood to neighborhood. ©2009 Sprint. Sprint and the logo are trademarks of Sprint. Other marks are the property of their respective owners.



Making socks in Wisconsin: U.S. factories actually expanded output last month

Tokyo watchers say the DPJ's strong mandate will speed up policymaking and help incoming **Prime Minister Yukio Hatoyama** push through consumer-friendly policy pledges, which include raising the minimum wage and cutting the gasoline tax. The DPJ is also likely to resist American-style free-market reforms.

"Japan Gets a New Government"
businessweek.com/magazine

FIRING UP THE ASSEMBLY LINES



*Any reading above 50 indicates expansion
Data: Institute for Supply Management

FACTORIES GET BUSIER

After 18 straight months of contraction, U.S. plants are cranking up again. The **Institute for Supply Management** said on Sept. 1 that its manufacturing index hit 52.9 in August, the highest since June 2007. Any number over 50 means the sector is expanding. Also, the **Census Bureau** said factory orders rose 1.3% in July, though that was below expectations because of declines in orders and shipments of tobacco, petroleum, and food.

BIG TOBACCO SUES

This one is probably headed for the **U.S. Supreme Court.** Smoking mad over advertising curbs passed by Congress in June, a group of tobacco companies and others filed suit on Aug. 31 seeking to overturn them on grounds that they violate the First Amendment. The manufacturers object mainly to a requirement that half of every pack of cigarettes now be covered by warning labels—and to limits on outdoor ads and sports sponsorships. **R.J. Reynolds,** maker of **Camel** and **Winston; Newport** maker **Lorillard;** and **Commonwealth Brands,** whose lower-priced **USA Gold** is the No. 4 cigarette in the U.S., are among those bringing the suit, whose lead counsel is **Floyd Abrams.** The suit does not take issue with another element of the new rules: **FDA** regulation of the industry. **Altria,** maker of the top U.S. smoke, **Marlboro,** did not join in.

FINANCE

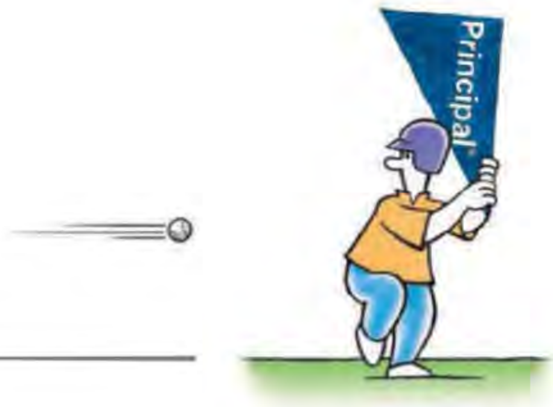
SLIDING IN SHANGHAI

September may traditionally be the cruelest month for U.S. stocks, but Chinese investors are hoping for a breather following a dismal August. After peaking early in the month, the Shanghai benchmark index sank 23%, including a stomach-churning 6.7% plunge on Aug. 31—its worst day in more than a year. What turned investors bearish? Worries that the government



Investors in Wuhan: The Shanghai index plunged 23% in August

(FROM TOP) RICK WOOD/MILWAUKEE JOURNAL SENTINEL/AP PHOTO; EPA/CORBIS



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will tighten the loose-credit policies that have led to talk of bubbles in the equity and property markets. On Sept. 1, **Premier Wen Jiabao** tried to reassure the markets, saying Beijing wasn't looking to take away the punch bowl just yet.

BW | PAGE 015 "When China Sneezes, the U.S. Increasingly Catches a Cold"



Venture capitalist Khosla is raising two funds that will invest in clean-tech companies

CERBERUS STRUGGLES

What's going on at **Cerberus Capital Management?** Jitters have been growing since *The Wall Street Journal* reported on Aug. 29 that clients representing $4.77 billion of the firm's $7.8 billion in hedge fund assets have asked to pull out their money. Cerberus, which oversees $24.3 billion in assets, was forced to pooh-pooh speculation that some of its hedge funds are in danger of default. Meantime, some investors in the firm's private equity business worry that Cerberus doesn't have enough money to dig out of its troubles. These days, the firm should be in its sweet spot, picking up forlorn companies at dirt-cheap prices during the recession. But it has already invested 73% of a $7.5 billion private equity fund it raised in 2006. Cerberus says the fund also has cash returned from its investments and that it raised a $1 billion fund in June. "There is a substantial amount of capital," says Cerberus **COO Mark Neporent**.

TECHNOLOGY

WANTED: GREEN MONEY

While other venture capitalists shy away from "clean-tech" investments, **Vinod Khosla** is stepping on the gas. His **Khosla Ventures** said on Sept. 1 that it's raising about $1.1 billion to invest in green energy, sustainable materials, and energy-related information technologies. A $275 million fund will put small sums into early-stage ideas, and an $800 million fund will inject up to $15 million into seedlings that are further along.

IDEAS FINANCIAL INNOVATION: THE BLOGGERS SQUARE OFF

Financial innovation is a hot topic these days as the **Obama Administration** moves ahead on plans to regulate everything from consumer credit to complex derivatives. And some of the liveliest debate is taking place on the blogosphere.

Simon Johnson and **James Kwak,** the duo behind **The Baseline Scenario** blog, argue that the toxic brew ladled out by Wall Street's wizards precipitated—or at the very least amplified—the financial crisis. In a Sept. 1 post, Johnson, a professor at **MIT's Sloan School of Management,** likens modern finance to junk food, saying it's of "little nutritional value, bad for your health, and a hard habit to kick." Johnson and Kwak take issue with those who argue that more stringent regs could crimp innovation, to the detriment of the economy.

Another camp thinks such arguments are wrongheaded—or just plain silly. **Economics of Contempt,** a blog authored by an anonymous lawyer who specializes in finance, argues that the past 30 years have produced plenty of beneficial financial innovations, among them zero-coupon bonds and structured finance. **Megan McArdle** of *The Atlantic*, meanwhile, believes the real problem is that regulation has not kept pace with new developments in finance. The job of regulators, she says, should be to sort out good innovations from bad ones. Think online banking vs. negative amortization mortgages.

Baselinescenario.com, economicsofcontempt.blogspot.com, theatlantic.com



MARTIN KLIMEK/ZUMA PRESS; ILLUSTRATION BY BRIAN STAUFFER


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ONE IN THREE
AMERICANS YOU
DON'T JUST KNOW
HEALTHCARE, YOU KNOW
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Charles Plosser of the Federal Reserve Bank of Philadelphia

WHAT AN INFLATION HAWK SEES AHEAD

As a recovery begins to take hold, one of the biggest fears on Wall Street and across American business is that the Fed's huge injection of liquidity into the economy could lead to an insidious burst of inflation. How serious a danger is that? To get some answers, I talked with Charles Plosser, president of the Federal Reserve Bank of Philadelphia. Plosser is one of 11 Federal Reserve bank presidents who serve rotating one-year terms as members of the interest-rate-setting Federal Open Market Committee. This year he is not a voting member, but as a noted inflation hawk, he has been vocal about the need for vigilance.

MARIA BARTIROMO
Where are we in this economic cycle?

CHARLES I. PLOSSER
Each month we get a little more good news. We still have some bad news to come, I suspect, but we're kind of bouncing around in that transition phase from contraction to recovery. I think in the coming months we'll see increasingly good news. I hope we'll see some positive growth in the second half.

You said back in July we will probably have to begin raising rates sometime in the not-too-distant future. It's now September. What is the not too distant future?
Your guess is as good as mine. It clearly depends upon the path of the recovery. But we may have to [raise rates] at a time where unemployment rates still

(TOP) BRAD TRENT; (BOTTOM LEFT) CHRIS CRISMAN

seem pretty high, because monetary policy works with a lag. We may potentially face a situation where we have to be as aggressive raising rates as we were in cutting them.

So how concerned are you that we will err too much on the side of easy money and set off a fireball of inflation that will be difficult to contain?
That's the big challenge. We will need some political fortitude, so to speak, to maybe make some tough choices at the right time.

If you were a voting member of the Federal Open Market Committee this year, how would you have voted in the last two sessions?
I guess I would have been with the majority. I wouldn't have raised rates yet.

What signs of impending inflation do you watch most closely?
Clearly, expectation is a very important element of our concern about inflation—what the public and businesses think about inflation. Commodity prices and other things are relevant, but they can often mask inflation trends. A massive amount of liquidity has been added to the banking system, and if that liquidity were to begin being translated into loans and growth and liquidity in the economy more broadly, we would create an inflation problem.

Is it fair to say that Topic One on the Fed's agenda is an exit strategy?
Well, I don't know if it's Topic One, but it certainly is high on our agenda. We've spent a great deal of time talking about that, worrying about it, making sure we have the adequate tools to do what we think will be necessary at the appropriate time, and debating what the appropriate time may be.

> **At some point we will have to shrink the Fed's balance sheet. Raising interest rates will help us do that**

What is the exit strategy?
The exit strategy will involve two pieces. One, there will be a time when we will have to raise interest rates. That will help us drain reserves from the banking system. And at some point we will have to shrink the Fed's balance sheet. Raising interest rates will help us do that. And shrinking the assets on our balance sheet may involve selling assets or slowing down our purchases.



After Minnesota's Horizon Bank failed, it was acquired by Stearns Bank. Plosser sees more bank failures ahead

(RIGHT) ANTHONY SOUFFLE/*STAR TRIBUNE*/ZUMA PRESS

Do you expect more banks to fail?
Oh, I'm sure more banks will fail. That shakeout is probably not over.

You saw [FDIC Chairman] Sheila Bair's op-ed in *The New York Times* on Sept. 1 saying that we shouldn't have one single regulator of banks. Do you agree with that?
That's a moot question, because I think we'll continue to have multiple regulators for a while.

What is the most dangerous threat to the economy and the recovery?
That's really hard to say. I think what's most dangerous is the thing we don't know—another shock that could derail the recovery or the financial system.

How do you respond to critics who say the Fed now has too much power?
One of the most important things that the Fed does is monetary policy—ensuring price stability and using price stability to ensure that we have sustainable intermediate and longer-term growth. We need to be very careful we don't have powers or authority or responsibilities that impinge on our ability to conduct sound monetary policy with the independence that requires.

MANAGING FORWARD
THE RESET ECONOMY
Getting ready for the post-recession world

Do you worry that with tax cuts expiring we won't see substantial incentives for business investment and the creation of new jobs? And do you think these higher taxes could slow down the recovery just when it's getting started?
Certainly higher taxes, depending on which taxes they are, can be a disincentive to growth. There's no question. But having said that, the bigger longer-term issue is that we need to get back to a more sustainable path for fiscal policy. It is not sustainable in its current projections by the CBO [Congressional Budget Office], and I think we have some major challenges in front of us. |BW|

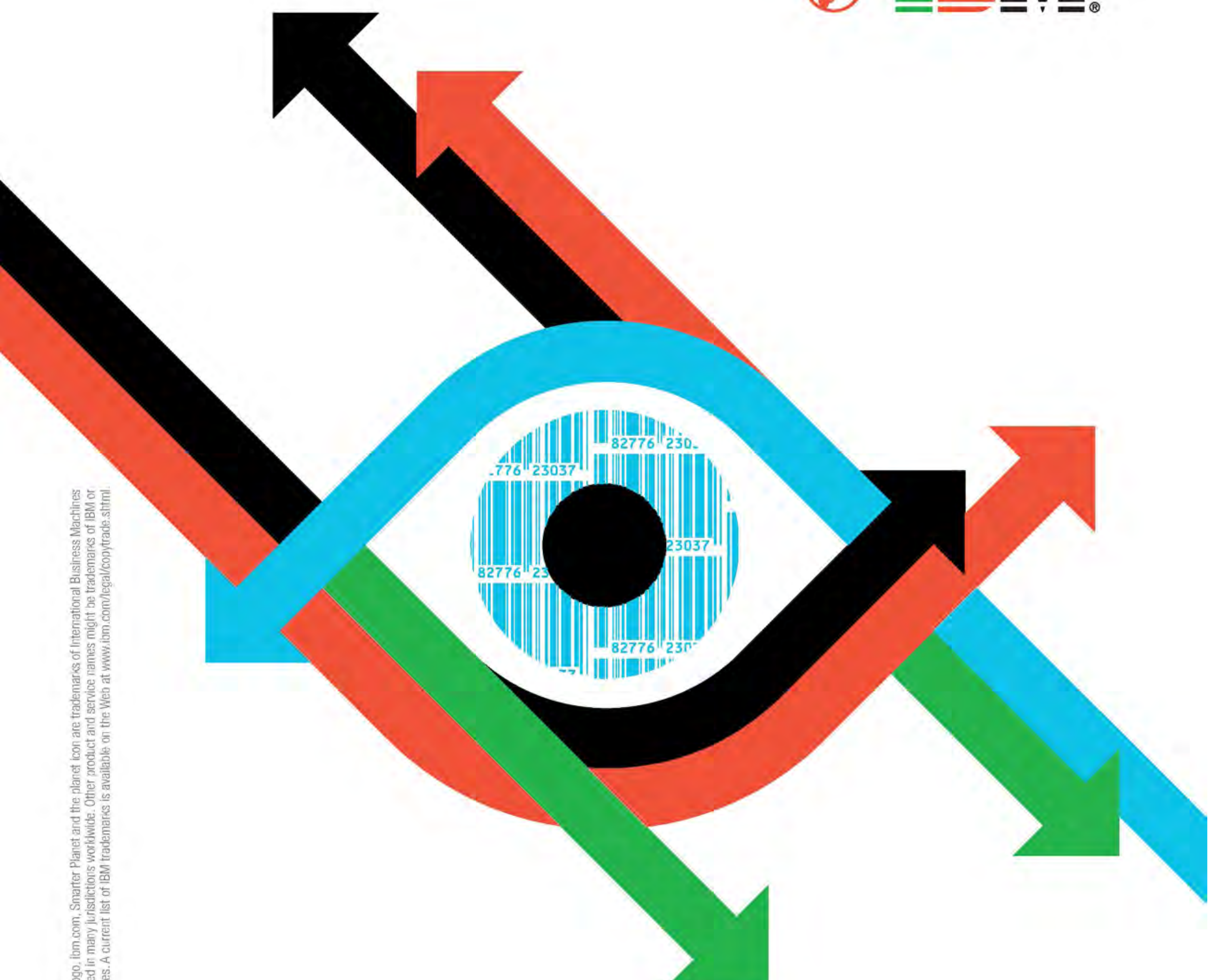
Maria Bartiromo is the anchor of CNBC's Closing Bell and writes the blog, Maria Bartiromo's Investor Agenda, at investoragenda.cnbc.com

Smarter business for a Smarter Planet:

What if your supply chain saw what you needed before you did?

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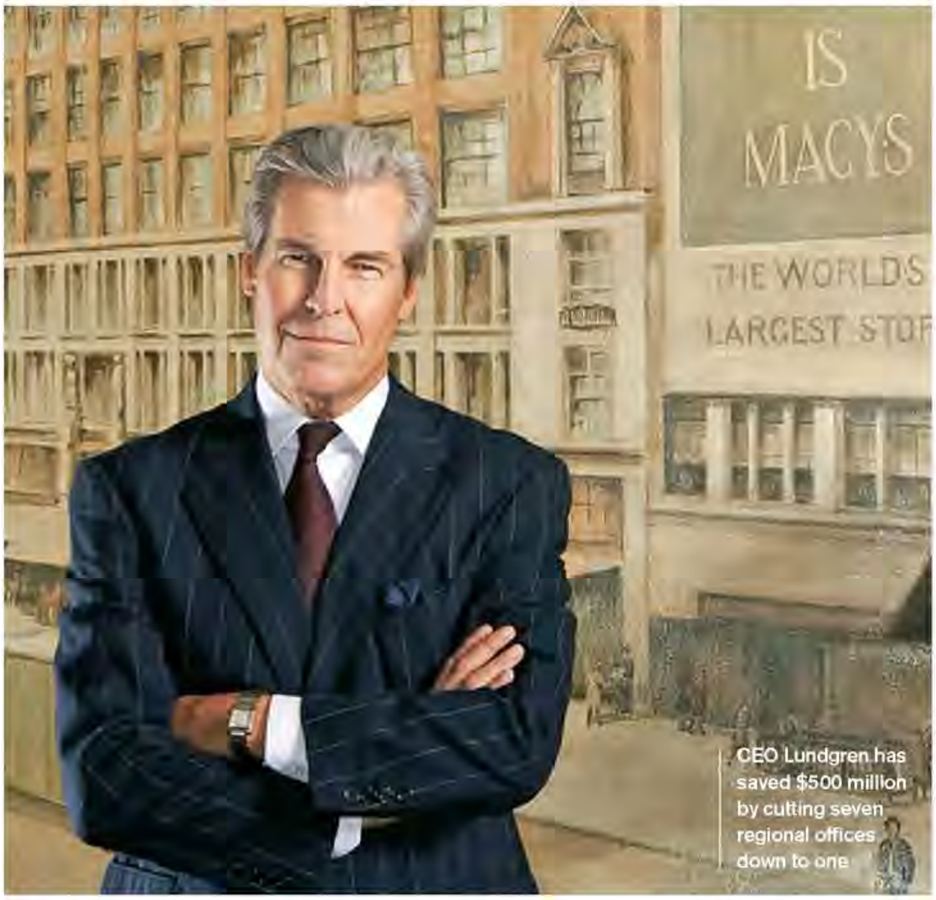


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MANAGING FORWARD

THE RESET ECONOMY *Getting ready for the post-recession world*

BY MATTHEW BOYLE



CEO Lundgren has saved $500 million by cutting seven regional offices down to one

A LEANER MACY'S TRIES CATERING TO LOCAL TASTES

Now may not be the right time for bold experiments, but don't tell that to Terry Lundgren. The Macy's CEO has restructured the 150-year-old retailer over the past year to make it both more centralized and more locally focused.

A contradiction? Not according to Lundgren. He considers the overhaul necessary to reverse 16 months of declining same-store sales and to ensure that Macy's can compete with the likes of J.C. Penney, Kohl's, and Target when shoppers are ready to spend again. "We can't wait around for the environment to improve," says Lundgren, a 57-year-old retail veteran. "You have to do something different."

For Lundgren, this means catering more to the local tastes of shoppers in the chain's 811 stores. How? He's stocking extra swimsuits in stores near water parks, for example, and responding to demand for more size 11 women's shoes in Chicago. The initiative, called My Macy's, was launched last year in 20 markets. Now he's expanding it nationwide. To pull it off, Lundgren has centralized Macy's buying, planning, and marketing operations from seven regional offices into one in New York. That move eliminated 5,400 jobs and has saved a total of $500 million over the past two years.

Macy's revamp reflects the problems facing retailers as consumers stay on the sidelines. From J. Crew to Neiman Marcus, companies are slashing costs and inventory to cope with measly sales. Department store chains face a particularly tough slog because they're battling discounters and specialty stores. Macy's earned just $7 million on $5.2 billion in sales in the second quarter, due to restructuring charges, but these results exceeded expectations.

EMPOWERING MANAGERS

Macy's isn't the first retailer to go local with its merchandise. Best Buy, Wal-Mart, and Tesco have tried it. While department stores have dabbled in customization, no national chains have done so in a big way because of their size and range of products. (Each Macy's stocks about 1.5 million items.) That problem worried Lundgren as he planned his overhaul in late 2007. He feared that housing all buying decisions in Manhattan would reduce Macy's responsiveness to local needs. So Lundgren replaced regional merchandise managers, who oversaw product assortments at two dozen stores each, with more local managers responsible for half that many outlets. With fewer stores to cover, each local manager could spend more time figuring out what was selling. "We can really get into [shoppers'] needs," says Michael Dervos, who oversees Chicago-area stores.

The experiment began paying off in the fourth quarter of 2008. Same-store sales in the 20 pilot markets, though still negative, were 1.5 percentage points better than those across Macy's. That gap widened to 2.6 points in the second quarter. A handful of cities, including Pittsburgh, had positive same-store sales. Lundgren isn't battling the recession, or his rivals, as much as he's fighting to stem Macy's losses and return it to health. "We won't be happy until those sales are growing," he says. |BW|

JORDAN HOLLENDER



THE BUDDING RECOVERY HAS STAYING POWER

Recent business austerity is boosting profits and the need to expand, and rising global growth is lifting exports, all while massive policy efforts continue to support demand

The worst U.S. recession since the 1930s appears to be over. The best sign: Real gross domestic product, the most comprehensive gauge of the economy's ups and downs, almost certainly hit bottom in the second quarter. Monthly data so far suggest a surprisingly strong advance this quarter with enough momentum to keep the upturn going in the fourth quarter. Still, many investors are skeptical. The improving outlook has succeeded only in setting off a hot debate: Is the recovery sustainable, or just a temporary bounce fueled by a few one-shot government programs?

The debate will not be settled anytime soon, but several underlying forces make a strong case that the upturn is durable. Already, spending by consumers and businesses, homebuilding, and manufacturing activity (chart) have begun the third quarter with much more oomph than expected, and many economists think annualized GDP growth in the 3%-4% range this quarter is a real possibility.

The key force at work is the sheer volume of fiscal and monetary policy. Its support of demand this year and next dwarfs any such effort in the downturns since World War II. To date, most of the fiscal stimulus has been tax-related, along with other income support. However, much of the stimulus from infrastructure spending and other government outlays is only now working its way into the economy. For example, since January the growth of public construction spending through July has accelerated to an 18.9% annual rate.

14.1M

Annual rate of August auto sales, up from 11.2 million in July and the highest since May 2008

Data: Commerce Dept.

Plus, the Federal Reserve's support of the credit markets will continue to strengthen financial conditions, so crucial to growth, well into 2010. Housing will benefit greatly. Already, the housing component of GDP is set to add to growth this quarter for the first time in 3½ years. Plus, with home prices bottoming out, prospects for mortgage-backed securities will improve, helping to further shore up housing while stanching the bleeding on bank balance sheets.

Prospects for business spending are also looking brighter (page 18), especially given the surprisingly strong performance of profits, which drive the expansion of outlays and hiring. In the second quarter, profits of nonfinancial corporations, based on the Commerce Dept.'s accounting, rose at a 19.3% annual rate from the first quarter—an especially solid performance for a quarter with falling GDP.

Profit margins also grew last quarter, a testament to the benefits of corporate cost-cutting and productivity gains. Nonfinancial companies are emerging from this recession with margins much higher than at the end of the last recession. With revenues set to pick up in the second half, further gains in profits are a sure bet.

Of course, consumers will be essential to a lasting recovery, and their help will require stronger labor markets. The plus here is that businesses have been extremely conservative in their spending and hiring, which puts them in a good position to gear up quickly as a recovery takes hold. Many are doing so, as the recent easing in job losses suggests. In fact, income growth, the key to any sustained increase in consumer spending, is already getting support from wages and salaries, which rose slightly in July for the first month in almost a year.

Finally, the upturn is global, with Asia, the Americas, and Europe all set to grow simultaneously. A synchronized recovery will boost the volume of world trade, especially to the benefit of U.S. exporters. Trade typically has been a drag on U.S. growth early in a recovery, as demand picks up in advance of other economies, boosting imports and widening the trade deficit. This time the trade gap is not likely to widen as rapidly, eliminating a potentially large hindrance to growth.

In the past, steep recessions have been followed by robust recoveries as was the case in the 1970s and 1980s. The current upturn seems to be starting out that way as businesses restock their exceptionally low inventories. But even if it doesn't maintain its initial burst, the strengthening supports under demand in all major sectors suggest this recovery has legs. |BW|

NEW ORDERS STIMULATE MANUFACTURING ACTIVITY



Data: Institute for Supply Management, IHS Global Insight

BRAD TRENT; CHART BY LAUREL DAUNIS-ALLEN/BW

NUMBERS

WHEN CHINA SNEEZES, THE U.S. INCREASINGLY CATCHES A COLD

By Tara Kalwarski/Charts by David Foster

Despite a big drop since Aug. 4, the Shanghai Composite Index has seen a double-digit increase over the last year. Moreover, its movements seem to be influencing the U.S. stock market recently, as China's economy continues to grow.

Divergent Paths: Over the past year, the S&P 500 is down 20% and the Shanghai Composite is up 11%.



Data: Bloomberg

Exceptional Growth: Adjusted for inflation, China's GDP is expected to rise 7.5% in 2009.

	2008 GROSS DOMESTIC PRODUCT* (TRILLIONS OF U.S. DOLLARS)	PROJECTED CHANGE IN REAL GDP IN 2009
CHINA	7.9	+7.5%
CANADA	1.3	–2.3%
U.S.	14.3	–2.6%
FRANCE	2.1	–3.0%
BRITAIN	2.2	–4.2%
ITALY	1.8	–5.1%
JAPAN	4.4	–6.0%
GERMANY	2.9	–6.2%

*GDP based on purchasing-power parity
Data: International Monetary Fund, World Economic Outlook Database, April and July 2009

66%

Percentage of trading sessions in August that the Standard & Poor's 500-stock index echoed the Shanghai Composite*. The Chinese index echoed the U.S. index somewhat less often—57% of the time.

*Meaning the U.S. index moved in the same direction as the Chinese index in the next trading session. Data: Bloomberg, *BusinessWeek*

BOFFO RETURNS

The gains of the top-performing stocks on China's Shanghai Composite are much greater than those of the S&P 500.

CHANGE IN STOCK PRICE OVER THE LAST YEAR*

TOP-PERFORMING STOCKS IN THE SHANGHAI COMPOSITE/INDUSTRY	
JIANGSU GAOCHUN CERAMICS/HOUSEWARES	411%
CHINA PETROLEUM JILIN CHEMICAL ENGINEERING & CONSTRUCTION/ENGINEERING & CONSTRUCTION	390%
SICHUAN WESTERN RESOURCES HOLDING/ENGINEERING & CONSTRUCTION	358%
ANHUI SUN-CREATE ELECTRONICS/ELECTRONICS	305%
NINGXIA DAYUAN CHEMICAL/CHEMICALS	298%

TOP-PERFORMING STOCKS IN THE S&P 500/INDUSTRY	
FORD MOTOR/AUTOS	80%
MICRON TECHNOLOGY/SEMICONDUCTORS	69%
AUTONATION/RETAIL	69%
WHOLE FOODS MARKET/FOOD	61%
FIRST HORIZON NATIONAL/BANKS	45%

Data: Capital IQ *As of Aug. 27

BTW

EDITED BY DEBORAH STEAD

CREDIT-CARD USERS START TO MEND THEIR WAYS

U.S. mortgage delinquencies and home foreclosures are still trending up in this struggling economy. But according to credit-rating agency Moody's Investors Service, delinquency rates are down for that other great source of consumer borrowing: credit cards.

Troubled accounts, those more than 30 days past due, declined in July for the fourth month in a row, to the lowest level all year: 5.7%, down from 5.8% in June. With that decline comes another sign that American consumers are becoming more vigilant about paying their credit card bills: Charge-offs (accounts considered uncollectible) also decreased in July, for the first time since September 2008.

Outstanding credit-card debt is falling as well, for the first time in about five years (chart), along with outstanding card balances. In part, that's because lenders—trying to recover from a daunting pile of bad debt on the books—have lowered credit limits. "When people realize that their lines are lower, they're more cautious," says Gene J. Truono Jr., managing director of BDO Consulting, which advises financial institutions.

The modest pullback in credit-card debt—it's still high relative to household incomes—also reflects widespread anxiety, he says. "Regardless of what you read, consumer confidence is not strong," says Truono. "People are concerned about continuing layoffs, and they don't want to be stuck with having to file for bankruptcy to get rid of their debt. That's a huge factor in changing behavior."

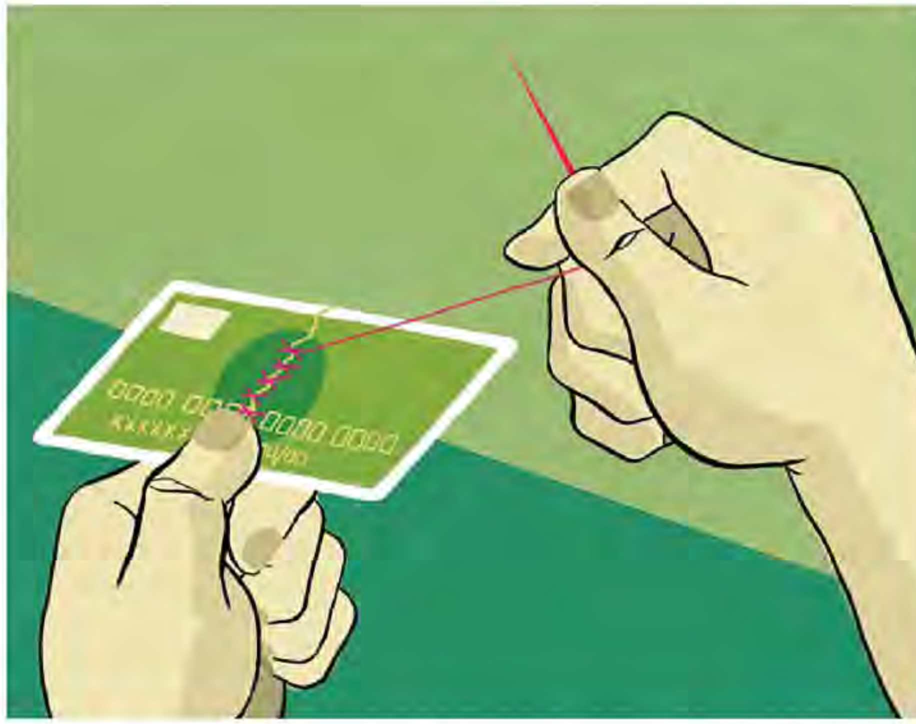


ILLUSTRATION BY RICH TU

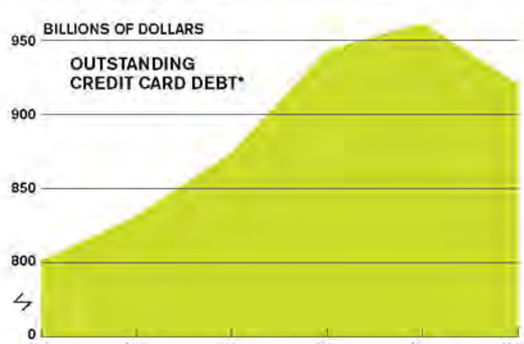
For now, at least. Lewis Mandell, who teaches finance and business economics at the University of Washington's Foster School of Business in Seattle, expects the decrease in credit-card debt to be short-lived. Despite all the talk of the Great Recession, Mandell says, the downturn won't last long enough to permanently alter Americans' borrowing and spending habits. And as memories of the financial crisis fade, consumers will return to their spendthrift habits. "In five years, credit-card spending will go back to where it was," he predicts.

As for today's chastened consumers, they still have a way to go when it comes to tidying up their personal balance sheets. While uncollectible credit-card accounts have declined, they nevertheless remain at 10.5%, much higher than the historical average of 5% to 6%. And more problems in plastic could flare up if the unemployment rate climbs higher—as economists expect—or if back-to-school and holiday shopping begins to strain household budgets.

Says Greg Larkin, lead financials analyst at researcher RiskMetrics Group: "If '1' is the sickest consumers have ever been, they're still hovering around a '2.'"

—Adrienne Carter and Ben Levisohn

A DIP IN DEBT



*Includes other revolving credit **As of July 1
Data: Federal Reserve

B-SCHOOL: THE VIEW AT THE GATE

Women now make up 46% of worldwide MBA candidates, more than ever before.That's one finding from the annual applicant survey by QS World MBA Tour, a London-based group that holds MBA fairs globally.

17%

Applicants who see themselves as CEO of a large company "in 10 years' time," the same percentage as in 2008

Data: QS World MBA Tour



Women now make up a record 46% of global MBA candidates

71%

Applicants who name the U.S. as the top MBA study destination, down from 81% in 2008

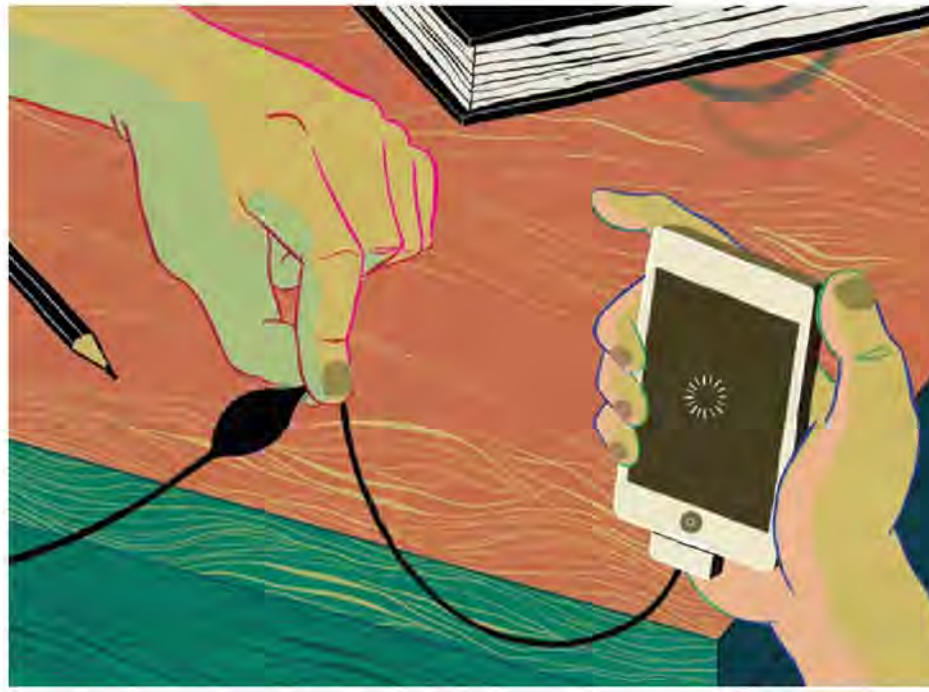
Data: QS World MBA Tour

Last fall and again in the spring of 2009, QS polled nearly 4,000 MBA applicants in 35 countries about everything from their preferred study destinations to post-MBA career plans.

U.S. programs still rank first in popularity, says Nunzio Quacquarelli, managing director of the QS World MBA Tour and a co-author of the report. But "partly because of the U.S. visa situation, more foreign students have shifted to looking at countries in Europe and Asia for schooling."

That shift, says Quacquarelli, also explains this crop of candidates' stated preference for a one-year MBA (44%) over a two-year program (43%), a first in the survey's 11-year history. (Two-year degrees are the norm in the U.S. and Canada.) The poll also found a doubling of applicants from the nonprofit sector—to 6% from 3% in 2008. Also up: the percentage of those naming nonprofit work as a career goal: 6.4% vs. 3.8% last year.

Starting a business is the No. 1 post-MBA career goal this year, Quacquarelli says. And at No. 2: financial services, almost as popular as it was last year. "The sector is traditionally the big absorber of MBAs," he says. "And the salary and bonuses are still so high that it's alluring, despite fact that there are fewer jobs." *–Alison Damast*



MOBILE APP MAKERS HEAR WASHINGTON CALLING

As smartphone apps proliferate, the FCC has sent out a signal that may be music to the ears of software developers trying to get to more mobile users. At an Aug. 27 hearing, the agency hinted at increased regulation of the $32 billion mobile data services market in which app makers offer everything from games and video to free or cheap over-the-Web calling services. One likely issue: whether wireless carriers limit these developers' access to consumers. For the first time, the FCC has asked app creators such as Google, Skype, and Vonage—not just wireless carriers like AT&T, Verizon Wireless, and Sprint Nextel—to submit comments about the state of innovation and competition in the mobile market. The FCC "is asking the right questions," says Christopher Libertelli, a senior director at Skype. Both Google and Skype, which offer Web-calling apps, say some carriers thwart their access to users. Carriers have argued that certain video and Web-calling applications can strain network capacity. Referring to the FCC's call for comments, carrier trade group CTIA issued a statement saying it appreciates "the opportunity to respond." *–Olga Kharif*

PHOTOGRAPH BY ADAM FERGUSON/*CHICAGO TRIBUNE*/MCT; ILLUSTRATION BY RICH TU

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029 Private equity waits out the feds
030 Hackers: The wrath of crowds

TURNING ON THE CORPORATE TAP

Companies that cut off capital outlays are starting to spend again, and that could help spur a global recovery

By Tara Kalwarski

Are companies ready to spend?

As the economy went into a tailspin last year, many companies stopped investing in their operations. For months they've refused to buy new computers, trucks, and other capital goods in an effort to stave off losses. The downturn in capital spending has been the worst since the Great Depression.

Now some U.S. corporations are opening up their wallets, laying the groundwork for a global recovery. A *BusinessWeek* analysis of companies in the Standard & Poor's 500-stock index found that 45% increased their global capital expenditures in the second quarter from the prior one. Only 19% did so in the first quarter. American Express, ExxonMobil, Verizon Communications, Wal-Mart Stores, and 106 others even upped their spending on a year-over-year basis. And those that continue to cut spending are doing so less drastically; expenditures overall have slipped just 3% in the latest quarter, vs. a 31% decline in the first. "Folks have changed their mindset toward cutting," says Steven Wieting, an economist at Citigroup.

The changing sentiment is another glimmer of hope for the global economy. Companies generally don't shell out money on new equipment, software, and buildings unless they think demand is picking up and profits are sustainable. The second quarter was encouraging: Earnings for the S&P 500, although still down from last year, were roughly 40% higher than in the first.

Capital spending will also be a critical growth driver in the coming years, especially given the dire state of consumers. The "expenditures will support a global recovery," says Kent Engelke, chief economic strategist at Capitol Securities Management. Already the European and Asian economies are benefiting from the uptick in spending by American multinationals. The U.S. economy, however, may lag somewhat as these companies continue to invest more of their dollars overseas. Capital spending within the U.S. fell 4% in the second quarter from the first—a bit worse than the drop in global expenditures among S&P 500 companies.

HOW TO PLAY IT 066

There's plenty of risk ahead. First,



RICHARD MIA



credit is scarce and costly, which makes it difficult to pay for outlays. St. Louis utility Ameren spent an extra $44 million in the latest quarter, vs. a year earlier. But the company says it was a one-time bump for equipment upgrades required by regulators. "We're reducing capital expenditures," says spokeswoman Susan Gallagher. "Credit is still very expensive for us right now." Second, spending in some areas will continue to suffer for a while. Given the glut of office space and rising vacancy rates, business construction is especially vulnerable.

BETTER CREDIT QUALITY

The companies that are spending fall into two camps: those that are playing catch-up and those that are more optimistic about their prospects. The first group includes health insurer Cigna, which increased expenditures by $16 million in the latest quarter. But Cigna's spending is off its peak, a level the company says it won't reach again until at least 2010. Such companies "cut back on capital spending much more than the fundamentals would have needed," says Milton J. Ezrati, senior economist at mutual fund firm Lord Abbett.

Companies such as American Express account for the second group. The credit-card company, which has suffered as defaults have risen and consumer spending has dropped, spent just $88 million on capital goods in the first quarter—the smallest amount since 2002. But credit quality at the company is improving: Delinquencies, those accounts more than 30 days past due, fell 14% in the latest quarter. With the problems abating, AmEx is plowing more money into the business, some $246 million in the latest quarter. At an analyst meeting on Aug. 5, CEO Kenneth I. Chenault said, "Initially our plan was to reduce investments this year by $1.5 billion.... Our intent is now to restore a portion of these investment cuts during the remainder of the year."

Some companies are allocating the extra money to technology, software, and other equipment that boost productivity. That's especially true for companies that have cut staff to the bone. "Companies can only defer CapEx for so long," says Kenneth J. Bentsen, president of the Equipment Leasing & Finance Assn., a trade group. "At some point, they have to replace their hardware and other equipment." The additional spending should be a boon for semiconductor makers such as Intel, Samsung, and Texas Instruments. Roger Wery, a partner at consultancy PRTM, expects global spending for chips to jump 33% next year.

Government largesse is spurring spending as well. The stimulus package offers subsidies for business investments in renewable energy initiatives. "There seems to be a great willingness to approve projects that serve the public interest," says Philip C. Adams, a senior bond analyst at researcher Gimme Credit in Chicago. ITC Holdings, a utility, is gearing up for green energy demand: It boosted spending to $109 million in the second quarter, a 10% increase over the previous year. "You can't change where the wind blows or where the sun shines," says ITC Chief Financial Officer Cameron M. Bready. And the company has to build infrastructure to use that energy.

Other companies are plowing dollars into new products or markets. J.M.

WILLING TO SPEND

After cutting capital spending dramatically, some sectors spent more in the second quarter

QUARTERLY CHANGE IN CAPITAL SPENDING (%)	
Consumer Discretionary	-4.0
Consumer Staples	0.4
Energy	-10.5
Financials	7.5
Health Care	6.4
Industrials	-10.3
Information Technology	-4.9
Materials	3.0
Telecom Services	15.4
Utilities	-2.1
S&P 500	-3.2

Data: Thomson Reuters

Smucker spent $80 million over the last three quarters of its fiscal year, up 29% from a year earlier. Most of the money went to Folgers Coffee, the brand it purchased last November from Procter & Gamble for $3 billion. Verizon is using extra funds to build telecommunications networks in Europe and India. The company estimates capital spending could top $17.8 billion this year, compared with $17.2 billion last year.

Many companies are spending on overseas operations, where they see stronger opportunities for growth. Campbell Soup slimmed down last year by selling off Godiva Chocolatier but plans to increase capital spending by more than 30%. A growing number of the overall investment dollars have been funneled into the company's new Russian and Chinese ventures, markets in which per capita soup consumption is among the world's highest.

A truly sustained global recovery will need more big spenders like ExxonMobil. The oil giant has spent more than $10 billion so far this year, including a large investment in a new natural gas facility in Qatar. Overall, it expects to invest $125 billion globally through 2012. Says Kenneth J. Kremar, an analyst at IHS Global Insight, a research firm: "We're a ways off from a solid recovery, but the verdict is we're moving in the right direction." |BW|

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A Tax Bite?
A study found that cutting capital spending may actually cost companies during a recession, according to a February article on CFO.com. The analysis, conducted by two business professors at Georgia Institute of Technology, shows companies often pull back on business investment during a downturn. But the slowdown in spending can trigger tax liabilities that hurt cash flow.

To read the full article, go to **bx.businessweek.com/capital-investment/reference/**



RICHARD MIA

WILL WINDOWS 7 REBOOT PC SALES?

Why the boost to the tech business from Microsoft's new operating system may disappoint the bulls

By Peter Burrows

For the first time in years, the PC market is starting to draw serious attention from Wall Street. Dell shares surged after the company beat earnings expectations for the second quarter. The next day chip giant Intel gave the sector another lift by raising its forecast for PC processor sales. Hopes are building among investors that the industry will see a revival in growth as Microsoft unveils its new operating system, Windows 7, on Oct. 22 to replace its troubled Windows Vista. "I think the uplift is going to be significant," says Brian Blair, an analyst with equity research firm Wedge Partners.

The question is how significant. Before Vista, a new Windows release could set off a corporate and consumer buying binge—not only for PCs, but also printers, mice, and software. Some analysts have pointed out that the Windows pop this time could be especially pronounced, since many people never bothered to buy Vista and some 600 million PCs are running the nine-year-old Windows XP.

But the tech bulls may be disappointed. Given the weak economy, PC unit sales are expected to rise 6.9% worldwide in the fourth quarter, according to research firm IDC. That would be the first quarter-over-quarter increase this year, but far short of the boost from releases such as Windows 95. "A lot of people are going to have to rethink their assumptions," says IDC analyst David Daoud. The firm expects PC sales to rise 6.1% in 2010.

Microsoft declined to comment for this story. But even the software giant has tried to tamp down expectations for the new operating system. "[The impact is] likely to be elongated over a couple of years, to be honest," Bill Koefoed, the company's investor relations chief, told shareholders in August.

That's not a reflection on Windows 7 itself. In preliminary testing the

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software has earned largely positive reviews, despite a few complications with installation (page 71). Besides delivering boot-up speeds and reliability that Vista didn't, Windows 7 will help PCs work better with high-speed networks, a key step as companies use more software programs online. Consumers will also be able to more easily view and share even high-definition content, whether it's a TV show on Hulu.com or a home video. "Windows 7 will put the pizzazz back into PCs," says Jen-Hsun Huang, CEO of graphics chipmaker Nvidia.

The economy is the primary reason for the holdup in near-term PC sales. While some companies are boosting their capital spending, most will make do with their existing computers for now. Kris Kutchera, vice-president for information technology at Alaska Airlines, says she will wait as long as possible to upgrade, maybe until 2012. "There's not a huge value for us to move [to Windows 7]," she says.

NETBOOK NEMESIS

Consumers may be more inclined to embrace Windows 7, but they're likely to drive a hard bargain on price. Pinched customers have driven down the average price for a PC to $680, from $835, according to analyst Stephen Baker of researcher NPD Group. Many consumers are opting for small, inexpensive netbooks, a market Microsoft has helped fuel by offering a version of Windows XP for as little as $15. Microsoft hopes to charge much more for the netbook version of Windows 7, but that may prove difficult. "The whole market is moving to lower price points," says Harvard Business School professor David B. Yoffie. "Microsoft wants to go back to 1995, but the world has changed."

Any sales growth in the PC market will be a welcome change—not just for Microsoft but for the entire PC ecosystem. Chipmakers, for example, slashed capacity during the downturn and now are able to command higher prices because of tight inventories. "The operating system is great and it gets everyone excited," says NPD's Baker. "But the heady days of the PC business are long gone." |BW|

HOUSING'S HIDDEN STRENGTH

Industry lobbyists are urging more tax credits, but home sales seem to have momentum of their own

By Prashant Gopal

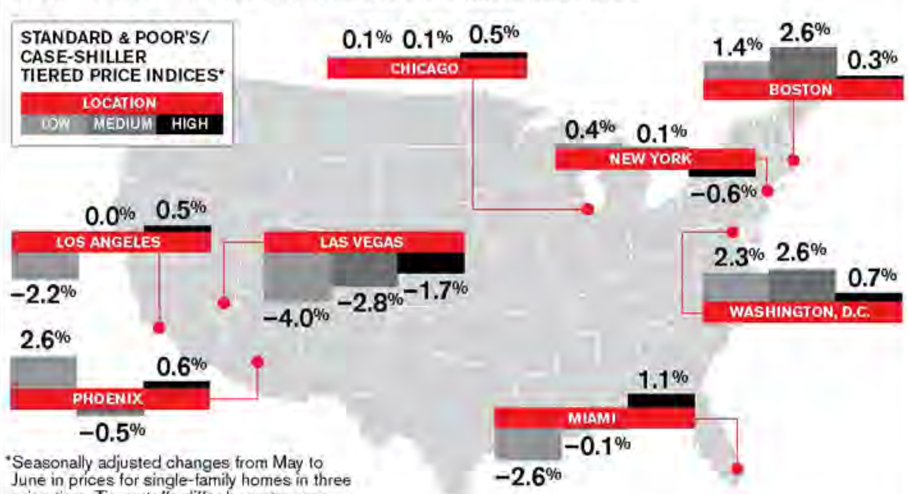
Homebuilders and Realtors are lobbying Congress to keep alive the tax credit for home purchases and to make it available to more buyers. They say the $8,000 credit—which is for people who have not owned a home for three years or more and expires after Nov. 30—has boosted demand for low-priced homes, many of them foreclosed and in need of repair. But, they maintain, it has done nothing for the "move-up" market, let alone the luxury segment. Many say the housing market will falter unless the credit is extended, doubled in value, and given to any buyer. "The giddiness we see out there [about a recovery] is without merit," says Richard A. Smith, chief executive officer of Parsipanny (N.J.)-based Realogy, the parent of Century 21, ERA, Coldwell Banker, and Sotheby's International Realty.

But some little-noticed data indicate there's more strength in housing than the industry recognizes. Prices have stabilized, and even appreciated, in the middle- and high-priced segments of the market in many cities, not just in the low-priced segment that is most directly helped by the home-buyer tax credit. That's according to the Standard & Poor's/Case-Shiller tiered price indexes for 17 metro areas, which were released on Aug. 25 but received relatively little publicity.

Seasonally adjusted prices rose in each segment of the market (low-, medium-, and high-priced) from May to June in cities including Boston, Washington, and Chicago. High-end prices went up even in hard-hit Phoenix. Las Vegas, where foreclosures are running extremely high, is the only one of the 17 metro areas that saw a price drop in all three price categories in June.

BROAD-BASED GAINS IN HOUSING

Prices are roughly stable or higher in many markets in all three price segments–low, medium, and high. Las Vegas is the biggest exception.



*Seasonally adjusted changes from May to June in prices for single-family homes in three price tiers. Tier cutoffs differ by metro area.

Data: Standard & Poor's

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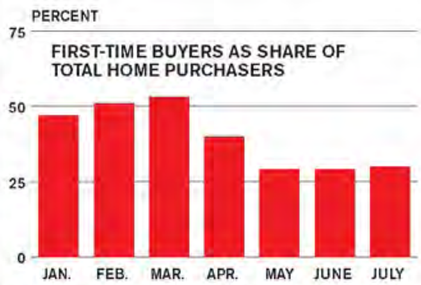
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NOT JUST RENTERS

More people who already own homes are buying new ones even though they aren't eligible for a tax credit



Data: National Association of Realtors

"The tiers are really revealing," says economist Karl E. Case of Wellesley College, who developed the index with Yale University economist Robert J. Shiller. "[The rising prices] can't be just first-time buyers." While prices could fall after the expiration of the tax credit, says Case, "It's not a knockout blow if the expansion is broad-based."

Those arguing that housing needs government life support say most of the sales action is in foreclosed homes, which tend to be super-cheap and are being bought as starter homes or investment properties. But a National Association of Realtors member survey seems to contradict that theory. Even as home sales rose, the share of first-time buyers dropped from 53% in March to 30% in July.

As for the argument that luxury is dead, Toll Brothers, the nation's largest luxury homebuilder, announced last month that in its May-July quarter it posted its first year-over-year increase in signed home contracts since 2005. Toll Brothers even started cutting incentives in some markets, mostly in the Northeast and mid-Atlantic states.

True enough, the housing market remains weak. Increasing the tax credit to $15,000 for all homeowners through the end of next year would result in 675,000 additional home sales, according to an analysis by Mark M. Zandi, chief economist at Moody's Economy.com.

There is evidence that sales fall when credits expire: In California, homebuilding slowed in July after a $10,000 credit for newly built homes expired. And with the rush of summer buying over, the market remains vulnerable to rising unemployment as well as a new wave of foreclosures, which could flood the market and drive down home prices. The Mortgage Bankers Assn. said last month that 9.24% of residential mortgage loans were delinquent as of the end of June, the most since recordkeeping began in 1972.

On the other hand, the housing market might be able to absorb more foreclosed properties as long as banks dribble them out slowly, says Rick Sharga, vice-president of Irvine (Calif.)-based RealtyTrac. "We may be in an unusual period of time where the market is recovering in spite of the record number of foreclosures," he says. "It's hard to explain, but that's what the numbers suggest at the moment."

With prices down and mortgage rates low, housing affordability is the best in years for those who can qualify for a mortgage (admittedly no easy feat). Michelle Meyer, an economist with Barclays Capital in New York, says that while the tax credit did contribute to the lift in sales and prices, "A lot of it has to do with greater affordability and a brighter economic outlook. Even if you say some of the gain is artificial, it's still true that we're seeing an increase in housing demand, and that shows fundamental strength." |BW|

DAVID FOSTER

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Luxury Condos' Comeback
When Wall Street tanked last year, buyers canceled orders for costly condos across the Hudson River in Hoboken, N.J. That changed this summer, says NJ.com's Hoboken Now. Toll Brothers, the nation's largest luxury homebuilder, said in an Aug. 27 earnings call with analysts that "in the past several weeks, we've been seeing interest in $1 million units in Hoboken."

To read the article, go to **bx.businessweek.com/housing-market/reference/**

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Some insiders say previous deals have made Bewkes gun-shy

DAMON WINTER/THE NEW YORK TIMES/REDUX

TIME WARNER: HEAT FROM SPIDER-MAN

Disney's acquisition of Marvel Entertainment could put pressure on CEO Bewkes to make a deal

By Tom Lowry and Ronald Grover

Walt Disney's $4 billion acquisition of Marvel Entertainment shows the Mouse House is still willing to make big bets in parlous times. The surprise move is also certain to put renewed pressure on other media companies to strike their own deals. No outfit is a more obvious buyer than Time Warner.

The media giant has about $7 billion in cash, and with an increasing focus on TV, film, and magazines, it has good reason to buy companies that would expand its reach. The big question is whether CEO Jeffrey Bewkes, who took heat last year for buying the profitless social network Bebo, will pull the trigger. Bewkes denies the Disney acquisition will push him into making his own deal, arguing that Disney bought Marvel in part to better compete with Time Warner's own DC Comics unit. "Nothing changes," he says. "We still look at any potential acquisition for its strategic rationale, what the risk is in terms of what we are willing to pay, and what our financial return will be."

There is no shortage of strategic fits for Time Warner. DreamWorks Animation SKG would give it a fighting chance against Disney's Pixar. DreamWorks, unlike Marvel, has refrained from licensing film rights to other studios. So a DreamWorks buyer could start making *Shrek* sequels as soon as 2011. One media executive says the studio might be too pricey. "Time Warner looks to be a bottom fisher," says this person. "I don't know if Jeff Bewkes has the support of his board to buy something that will take a large premium to get."

If Bewkes wants a bargain, a more likely possibility is Metro-Goldwyn-Mayer. MGM's large film library would give Time Warner's cable channels cheap programming and fuel its online ambitions. MGM would surely come cheaper than it did five years ago, when Time Warner withdrew a bid after the asking price crept toward $5 billion.

CABLE VISION

Bewkes is a big fan of cable channels, which bring both advertising revenues and distribution fees. Scripps Network Interactive, whose lineup includes the Food Network and HGTV, would fit neatly. And while the ad-dependent NBC network might give him pause, the rest of NBC Universal, with such cable channels as Bravo, USA, and SYFY, plus the movie studio, would mesh well, too. Of course, that assumes GE would let its entertainment division go.

Video games also make sense. Larry Haverty, a portfolio manager at Gabelli Asset Management, which owns more than 140 million Time Warner shares, thinks Electronic Arts would be a good buy, or Take Two Interactive Software, with its Grand Theft Auto franchise. Buying a game company would help Time Warner diversify away from movies and ad-supported media. The time is ripe, since many game makers are hurting and could go cheap.

So far, Bewkes has used his cash to pay dividends and buy back stock, the price of which has risen 30% this year. Some media insiders suspect acquiring Bebo for $850 million made Bewkes gun-shy. Investors say he overpaid for a second-tier social network that is confined mostly to Europe. But in a buyer's market and with consolidation brewing, Bewkes may soon need to acquire something. |BW|

$7 billion

Time Warner's cash hoard, which the company is tapping to pay dividends and buy back stock.

Data: Time Warner



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- If you are allergic to anything in the VIAGRA tablet.

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Tell your doctor if you have or ever had:

- Heart attack, abnormal heartbeats, or stroke
- Heart problems, such as heart failure, chest pain, or aortic valve narrowing
- Low or high blood pressure
- Severe vision loss
- An eye condition called retinitis pigmentosa
- Kidney or liver problems
- Blood problems, such as sickle cell anemia or leukemia
- A deformed penis, Peyronie's disease, or an erection that lasted more than 4 hours
- Stomach ulcers or any kind of bleeding problems

Tell your doctor about all your medicines. Include over-the-counter medicines, vitamins, and herbal products. Tell your doctor if you take or use:

- Medicines called alpha-blockers to treat high blood pressure or prostate problems. Your blood pressure could suddenly get too low. You could get dizzy or faint. Your doctor may start you on a lower dose of VIAGRA.
- Medicines called protease inhibitors for HIV. Your doctor may prescribe a 25 mg dose. Your doctor may limit VIAGRA to 25 mg in a 48-hour period.
- Other methods to cause erections. These include pills, injections, implants, or pumps.

POSSIBLE SIDE EFFECTS OF VIAGRA

Side effects are mostly mild to moderate. They usually go away after a few hours. Some of these are more likely to happen with higher doses.

The most common side effects are:

- Headache
- Feeling flushed
- Upset stomach

Less common side effects are:

- Trouble telling blue and green apart or seeing a blue tinge on things
- Eyes being more sensitive to light
- Blurred vision

Rarely, a small number of men taking VIAGRA have reported these serious events:

- Having an erection that lasts more than 4 hours. If the erection is not treated right away, long-term loss of potency could occur.
- Sudden decrease or loss of sight in one or both eyes. We do not know if these events are caused by VIAGRA and medicines like it or caused by other factors. They may be caused by conditions like high blood pressure or diabetes. If you have sudden vision changes, stop using VIAGRA and all medicines like it. Call your doctor right away.
- Sudden decrease or loss of hearing. We do not know if these events are caused by VIAGRA and medicines like it or caused by other factors. If you have sudden hearing changes, stop using VIAGRA and all medicines like it. Call your doctor right away.
- Heart attack, stroke, irregular heartbeats, and death. We do not know whether these events are caused by VIAGRA or caused by other factors. Most of these happened in men who already had heart problems.

If you have any of these problems, stop VIAGRA. Call your doctor right away.

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Do:

- Take VIAGRA only the way your doctor tells you. VIAGRA comes in 25 mg, 50 mg, and 100 mg tablets. Your doctor will tell you how much to take.
- If you are over 65 or have serious liver or kidney problems, your doctor may start you at the lowest dose (25 mg).
- Take VIAGRA about 1 hour before you want to have sex. VIAGRA starts to work in about 30 minutes when you are sexually excited. VIAGRA lasts up to 4 hours.

Don't:

- Do not take VIAGRA more than once a day.
- Do not take more VIAGRA than your doctor tells you. If you think you need more VIAGRA, talk with your doctor.
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PRIVATE EQUITY WAITS OUT THE FEDS

More problem banks and less FDIC money mean tough takeover rules could eventually be loosened

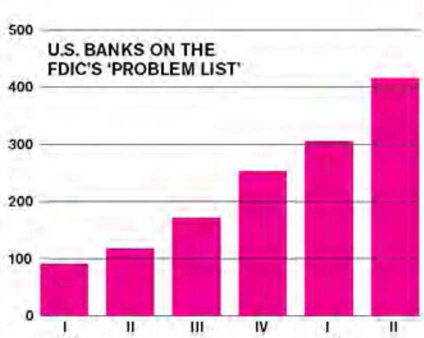
By Peter Carbonara and Theo Francis

The U.S. is making it tough for private equity firms to buy ailing banks. In late August the Federal Deposit Insurance Corp. imposed stricter rules for acquisitions, the latest move in a long game of chess between the banking regulator and the buyout giants. But analysts say the FDIC may back down. The number of troubled banks is rising, and the regulator's pot of money is dwindling.

For months private equity players such as Carlyle Group, Blackstone Group, and KKR have been salivating over bad banks. That's because the FDIC has agreed to eat the bulk of the losses in most deals, leaving buyers with huge potential for profits. The FDIC says these "loss-sharing" pacts ultimately save taxpayers money, in part because it's costlier for the U.S. to take over the banks outright. For buyout players, the deals "are like licenses to print money," says a banking lawyer.

Despite the ready pool of capital, private equity has accounted for only a handful of such purchases. The most recent was in May, when Carlyle and a group of other investors bought Florida's failed BankUnited Financial for $900 million. Instead, established banks have bought most of the failed institutions from the FDIC, snapping up dozens since the start of 2009.

THE BAD BANKS



Data: Federal Deposit Insurance Corp.



Bair says private equity firms "have greater risks to us than established banks"

BEN BAKER/REDUX

DIFFERENT STANDARDS

Dealmakers say the government is the biggest roadblock for private equity. Under the new FDIC rules, a bank acquired by private investors will have to keep an extra cushion of capital to protect against losses, roughly 10% of assets in the first three years of ownership. The buyout industry calls the requirement unfair. In similar situations, bank holding companies typically set aside capital that amounts to 8% of assets. "We're being held to a different set of rules," says a dealmaker at a large private equity firm.

The changes are less stringent than initially proposed, and FDIC Chairman Sheila C. Bair told *BusinessWeek* they are justified. The agency, she noted, has received several dubious bids for failed banks. One private equity firm proposed to flip the bank to another investor quickly. Another wanted an offshore company to own the bank, making it less transparent. Private equity firms "have greater risks to us than established banks," Bair said. "We want them in, but we want to set some ground rules that will address the heightened risk."

The FDIC can afford to take a tough stance for now. The stock market is way off its lows, and housing shows signs of stabilizing. As a result, banks, which have been suffering under the weight of bad loans, aren't as desperate to raise money from outside investors.

But the crisis isn't over. Since the start of 2008 the number of banks on the FDIC's "problem list" has jumped threefold, to 416, the highest in 15 years. If a double-dip recession occurs, the housing market fails to improve markedly, or commercial real estate crashes, those banks may need a fresh infusion of capital—and fast.

That's why industry experts figure the government will loosen the capital criterion. Bair expects private equity dealmaking will pick up despite the new requirements. But she acknowledges the banking system's hunger for capital and plans to revisit the rules in six months. "We'll see how [the new plan] works," she says. If too many banks sour, the FDIC may run out of cash and be forced to tap a line of credit from the Treasury. It has just $10.4 billion left in a fund to cover insured deposits, the lowest amount in a decade. The math, says Robin Maxwell, a banking lawyer at law firm Linklaters, favors private equity: "The FDIC just needs the money." |BW|

HOUNDING THE HACKERS

Symantec is trying to use the power of people to hunt down cybercriminals



By Cliff Edwards

Since the earliest days of the Internet, people have tried to hack their way into the computers of others. Even as hacking has grown from a way for geeks to impress each other to a means for criminals to steal and blackmail, the strategy for computer security has remained largely the same: Companies and consumers erect the thickest walls they can around computers so the bad guys can't get in.

Now security experts, realizing they're losing the battle, are ready to try a new approach. They plan to recruit victims and other computer users to help them go on the offensive and hunt down the hackers. "It's time to stop building burglar alarms to keep people out and go after the bad guys," says Rowan Trollope, senior vice-president for consumer products at Symantec, the largest maker of antivirus software.

Symantec is one of several companies trying to turn the tables. On Sept. 9, when its new Norton Internet Security is introduced, Symantec will ask customers to opt in to a program that will collect data about attempted computer intrusions and then forward the information to authorities. Symantec will also begin posting the FBI's top 10 hackers and their schemes on its Web site, where customers go for software updates. Next year, the company will begin offering cash bounties for information leading to an arrest.

Bryan Rutberg is ready to help out. Earlier this year hackers commandeered the Seattle resident's Facebook page and told his friends that he needed money wired to London because he had been robbed at gunpoint. The thieves collected more than $1,000 before Rutberg put a stop to the scam. "It's deeply frustrating," he says. "If any company can do something to [improve Internet security], it's a huge service for the online community."

33%

Increase in the number of complaints about Internet crime in 2008

Data: Internet Crime Complaint Center

BLACK HATS

The strategy to involve PC users has its risks, though. Hackers who find novices on their trail may trash their computers or steal their identities as punishment. Citizen hunters could also become cybervigilantes and harm bystanders as they pursue criminals. But some law enforcement experts believe the best way to slow down hackers, whose crimes often span multiple legal jurisdictions, is to get more people involved. "It's impossible to eradicate cybercrime from the top down," says Assistant U.S. District Attorney Matthew A. Parrella, who heads the Computer Hacking & Intellectual Property unit in Northern California.

Hackers, or black hats, as they're known, are increasingly adept at worming their way into corporate networks or deceiving people into installing malicious code on their computers. The government-backed Internet Crime Complaint Center says the number of complaints rose 33% last year, to 275,284.

Symantec's new product uses a technology dubbed Autopsy that quarantines suspicious software being downloaded to a customer's computer. It then creates an onscreen alert that tells the user the software came from an unexpected location such as China or Eastern Europe. A service called Norton Community Watch collects the data and forwards them to law enforcement.

The approach is a reversal from past efforts to make security scans less intrusive. Symantec and other companies long thought people didn't want to be bothered as security software looked for viruses. Now Symantec is betting customers won't mind being disrupted if they can help snare the bad guys. "I'm convinced we can clean up the Internet in 10 years if we can peel away the dirt and show people the threats they're facing," says Trollope. |BW|

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THE BEST PLACES TO LAUNCH A CAREER

By Lindsey Gerdes
Photograph by Ed Alcock

Graduates lucky enough to land a job may find the prospect of responsibility and rapid advancement surprisingly strong. But don't count on bigger salaries



1

Deloitte & Touche
Accounting

Olympics aspirant Nabe, 26, will soon take an IT consulting assignment in France, where he hopes to train two hours a day for the 100-meter dash



21 **Aflac** *Insurance*

Azzam's big break came when her boss was transferred and wasn't replaced. Now, at 26, she's running the insurer's entire college recruiting program

Miranda Azzam's title at Aflac's Columbus (Ga.) headquarters is college recruiter, but that doesn't begin to describe what she does for the $16.6 billion insurer. Like all recruiters, she spends a lot of time talking to students and running career fairs. But she also manages a new Web ad campaign and tracks everything from how long it takes to fill each opening to what it costs to bring new employees on board. In fact, she heads the insurance company's entire campus recruiting effort. And, oh yes—she just turned 26. ¶ Oddly enough, Azzam has the recession to thank for her success. She landed a job at Aflac after graduating from the business program at the University of Texas at Tyler in 2006, long before the economy began unraveling. But she assumed her new supervisory responsibilities in March, when her boss moved to another position within Aflac and the company chose not to hire a replacement. Without the downturn, Azzam might have waited much longer for her big break. "We're operating very lean," says Azzam. "When we had a supervisor over our team, she made the final decisions. Learning to lead people and delegate is something I've never been able to do until now."

With the economy shedding 6.7 million jobs since the recession began in December 2007 and college graduates facing the most difficult labor market in many years, it's easy to conclude that for many young people this is the worst of times. But for those like Azzam who are already employed and for any young graduate who manages to beat the odds and follow her into the labor force this year, it could well be the best of times. With companies everywhere trimming payrolls to cut costs, many new grads will likely find themselves filling the shoes of the recently departed and taking on bigger responsibilities faster than they ever imagined. Most will not get big raises or fancy new titles as a result. But when the recovery comes, those same grads will be well positioned for promotions, as boomer retirements create openings in middle management. It's a recession dividend that can be found at many of the employers in *BusinessWeek*'s fourth annual Best Places to Launch a Career ranking. "There are more opportunities than there were a few years ago," says Craig A. Johnson, president of Philip Morris USA. "Many companies have streamlined their operations, so there's a greater chance for people to stand out."

And standing out may be the only chance they have to get ahead. The time-honored method for reaching the second rung on the career ladder—switching employers—will be difficult. Going back to school piles debt on top of debt and offers no guarantees. "The voluntary mobility they expected is not there now, and it's not going to happen for the next few years," says Edward E. Lawler III, director of the Center for Effective Organizations at the University of Southern California's Marshall School of Business. "[Work] is about battling and hunkering down and trying to hang on."

All well and good for the gainfully employed, but getting a job in the first place is no slam dunk. Many companies have been cutting back on entry-level

19.7

Percentage of 2009 graduates who applied for a job—and landed one.

Data: National Association of Colleges & Employers

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hiring—one survey of 2009 college grads found that only 1 out of 5 who applied for a job succeeded in landing one—and the employers in our ranking are no different. Entry-level hiring in the first half of the year was down across the board, with at least 50 of the 69 employers who took part in our survey reporting an average decrease of more than 20%. At many companies, including AT&T, Macy's, and Microsoft, the employment picture was far worse, with entry-level hiring down well more than 50%.

BIG SHAKEUP

To compile this ranking (page 40), *BusinessWeek* polled 60 college career services directors across the country; collected data from a survey of 60,000 U.S. undergrads by Universum USA, a Philadelphia research company; and required employers to submit statistics on everything from pay and benefits to training programs and retention. The number of ranked employers is down sharply this year, owing to our decision to raise the bar on eligibility. And the tougher competition—combined with a handful of new employers and shifts in sentiment among students and career services directors—resulted in a shakeup in the standings. Some companies, including No. 11 Accenture and No. 19 Prudential moved up more than 35 spots, while No. 34 Marriott and No. 48 Lockheed Martin were down 28 and 40 spots, respectively.

Even the top 10 underwent big changes this year. Marriott and Lockheed were out, as was Google, which declined to participate. But three new employers entered the winner's circle. The State Dept. and Teach For America, which places college grads in troubled school districts, are both in the midst of ramped-up recruiting campaigns, while J.P. Morgan, a unit of JPMorgan Chase, reaped a survivor's benefit: It's one of the few big investment banks left standing.

For the Big Four accounting firms, which have dominated the top of the ranking since its inception in 2006, this was a business-as-usual year. The group once again took all four top spots, though Deloitte & Touche unseated rival Ernst & Young at No. 1. With rich benefits, extensive training programs, and a combined recruiting effort that makes more than 10,000 hires even in a tough year, the Big Four are hard to beat, and Deloitte is harder than most. With substantially higher pay—18% of Deloitte's entry-level hires this year will earn north of $65,000—plus the industry's biggest signing bonuses and most generous time-off policy, it's no wonder Deloitte is a favorite of students and career services directors. It doesn't hurt that Deloitte's entry-level hiring took the smallest hit this year, down just 1.1% in the first half compared with double-digit drops for No. 2 Ernst & Young and No. 4 KPMG.

Deloitte, like most of the companies in the ranking, is not immune to the effects of the downturn—it reduced its U.S. workforce about 2% last year, citing "the overall slowdown in the U.S. and global economies." To make do with less, Deloitte is tapping its brightest young employees for cost-cutting ideas—then tossing them the keys. "When people come in with an innovative idea that's cost-effective, they may get a chance to implement it," says Diane Borhani, Deloitte's national campus recruiting leader.

And not just at Deloitte. Just ask Justin Welke, a 26-year-old who started as an operations management trainee at Nestlé's Bloomington (Ill.) factory, where he put a number of cost-cutting initiatives of his own invention in place. "We're having a war on waste," says Welke, who joined the company in 2007 after graduating from Michigan State University with a degree in packaging. Welke sensed an opportunity—and found that minor tweaks to packaging and design can make a big difference. One of his ideas, restacking cases to make room for 10 more on a single pallet, is saving the company an estimated $60,000 a year. He also supervised a team of 20 in the factory.

Welke's performance got him noticed—and a new assignment at the Springville (Utah) plant. He now manages 44 hourly workers, some of whom are more than twice his age, something he much prefers to a headquarters job. "I thought: 'Wow, I have a chance to get front-line leadership experience.' That's something you wouldn't get in a corporate role," says

DEFYING THE DOWNTURN

GET AMBITIOUS

Be prepared to work long hours, take on difficult tasks, and relocate if necessary. A raise? Don't hold your breath.

GET POSITIONED

Identify bosses who are moving up or are overwhelmed. Then volunteer to help.

GET CREATIVE

Suggest ways to save your company money or generate new revenue—and play a role in the effort.

GET NOTICED

Recessions are no time to fly under the radar. Tell bigwigs about achievements but avoid shameless self-promotion.

GET NETWORKED

Be indispensable. Work with other units and stay in touch with newfound allies—you may need them later.



13 Abbott Labs *Health*

Soni (left) discusses a glucose monitor with a diabetes patient. Now on a training program, he hopes his cost-saving ideas will help him get ahead

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Welke. "The best learning experience is when they just throw you in there."

Welke, who wakes up at 3 a.m. to get to work an hour before the start of his 5:15 a.m. shift—and often stays late—is a good example of what it takes for young people unaccustomed to drudgery to get ahead these days: hard work, long hours, and a willingness to make sacrifices. At Deloitte, Cedric Nabe, 26, travels extensively to work with his IT consulting clients. It's a job he loves, even though it makes training for this Olympics hopeful a challenge. In a few weeks he'll be on assignment in France, where he'll need to work in two hours of training each day if he's going to have a shot at the 100-meter dash. "I don't want to give up on track," Nabe says. "But I also want to be a great performer at work."

For Generation Y, all this represents a dilemma. As a generation, it never suffered from lack of ambition. But to get the responsibilities they covet, millennials will need a new outlook on work. Often criticized for a sense of entitlement, members of this cohort will have to knuckle down and pay their dues. And though often seen as needing direction, they'll have to make do without hand-holding. Plus, the search for work-life balance that Gen Y considers a priority will be more elusive than ever.

The new rules of work will, for many, be a rude awakening. "I think some are kind of frustrated and angry about having to take on more work," says Jennifer Kushell, a consultant who advises companies on managing Gen Y. "The ones who are



25 | **Nestlé USA** *Consumer Products*

After coming up with a money-saving idea, Welke was rewarded with a factory job supervising 44 hourly workers, some more than twice his 26 years

LANCE W. CLAYTON

BusinessWeek.com Special Report

INTERACTIVE TABLE Rerank our list using different criteria
PROFILES In-depth statistical reports on 69 employers
SLIDE SHOW Photo essay featuring all ranked employers
PLAN B Recent grads describe their backup career plans
RECRUITER ROUNDTABLE Nonprofit employers discuss hiring outlook
FIRST JOBS BusinessWeek's blog for Gen Y job seekers

WHY NEW GRADS LOVE CISCO

They get to choose which department they'll join and which manager they'll work for

When Cisco Systems brings young hires on board, the process is less like a typical corporate orientation and more like a sorority rush. Instead of being hired into a specific business unit and assigned a manager, the new employees get to do the picking.

This innovative approach may seem unusual—why should a 22-year-old have 30 managers vying for her attention?—but it gets results.

More than 2,500 newbies, mostly engineering grads, have gone through this process, called Cisco Choice, since its inception in 2006. Of these, 98% were still with the company after two years. That's an astonishing retention rate, as studies show few Gen Yers last that long in their first jobs. And Cisco's staff engagement levels are off the charts. "When you provide options aligned with a student's interests and skills, you're going to get more productivity and excitement than by allowing them to interview with one manager for one position," says program head Monica Perez.

clinging to 'business as usual' as the world crumbles around them are in trouble."

Unfortunately, that seems to be exactly what many are doing. A recent employee survey by research firm Development Dimensions International found that more than half the 223 Gen Yers in the sample felt their careers were in limbo, but fully 93% of those said they were unlikely to push for more responsibility. Forty-four percent said they would look for another job when the economy improved, 30% said they'd go back to school, and 11% said they would "do what I'm told, nothing more, nothing less"—not a recipe for success. "It's easy to excel in a good economy," says Deloitte's Borhani. "Those really willing to do what it takes and say, 'this too shall pass,' are the ones people will remember."

Indeed, Gen Y's best and brightest are counting on their bosses having good memories. When Pathik Soni, 24, joined drug and medical device maker Abbott Laboratories' training program in January 2008, the financial crisis was in full swing. Soni, a University of Wisconsin electrical engineering grad, expected difficult challenges ahead and less job security, but he saw opportunity, too. During his first rotation he suggested changes to one Abbott building to make it more environmentally friendly, including installing more energy-efficient lighting. If adopted companywide, such changes could save millions—cost reductions he hopes will help him land his choice of jobs when his training ends in December. "I feel pretty secure," Soni says.

HARDEST-HIT INDUSTRIES

Entry-level hiring, first half 2009 vs. first half 2008

-76.3%	Hospitality
-55.4%	Technology
-41.6%	Transportation
-39.3%	Investment Banking
-30.8%	Telecommunications

Note: Excludes industries with hiring data from fewer than three employers
Data: *BusinessWeek*

While many members of Gen Y who are being propelled up today's corporate ladder have the recession to thank, Soni could likely benefit from a different trend. With more than half of Abbott's senior executives set to retire in the next five years, the company's senior vice-president for human resources, Stephen R. Fussell, says a talent vacuum at the top will create opportunities in middle management for the most qualified young workers—a situation likely to repeat itself elsewhere. As a result, says Fussell, Abbott's top-performing Gen Y employees can expect to be promoted 50% faster than boomers and 20% faster than Gen Xers early in their careers. Says Fussell: "They're going to reach bigger jobs earlier in their career, and they're going to get there in a less hierarchical manner."

That message hasn't been lost on Amber Brown. Since starting at Walt Disney's Imagineering division in 2007 (after earning three master's degrees and starting on a PhD), the 31-year-old research scientist has been analyzing visitor satisfaction at the company's theme parks—everything from the architecture to the ability of guests to take memorable pictures. But that's hardly all she does. At last count, the Glendale (Calif.)-based Brown was involved in seven different projects, several of which she pitched herself. One of them involves the Epcot Test Track ride that hurtles people down bumpy roads and hairpin turns. Her analysis of a feature that photographs passengers during the ride, involves overseeing six teams throughout the organization. By immersing herself in projects outside her own division, she hopes to guarantee her survival and advance her career. "In a company this large," she says, "you never know what's going to spring up a year down the line."

As the recovery gains a foothold, young employees will be able to begin breathing more easily. But for those who are willing to put in the extra effort, rapid advancement may come sooner than they think. And the economic clouds may not be so dark after all. **BW**

The matchmaking system, used for interns as well as permanent hires, also gives Cisco an advantage in recruiting. Ralph Mobley, career services director at Georgia Institute of Technology, says the program is a big reason why Cisco could hire more than 50 of its grads in three years. "Students really like that they're going to get some input," he says. "If they have two offers, that's what might sway them."

Cisco Choice participant James Reavis, 23, is a fan. Although only in his fifth week on the job—testing new features on Cisco's TelePresence videoconferencing product—he is already seeing how connections forged with other departments during program interviews are invaluable. "Normally [new employees] just know what their department does and what their specific product is," he says. "When we collaborate, I already know what the other department does."

The Santa Clara University alum started with 95 other Cisco Choice participants in late June. After a week-long overview of the company and a week of presentations from managers at more than 30 business units, Reavis' group spent a final week meeting with the managers and employees in each participant's five favorite business units. Each employee then selected his or her top three managers and awaited placement. Reavis, like most new employees, got his top pick—managers are eager to accept the additional manpower because most of the training and salary costs come out of the corporate budget, not their own.

If employee engagement and retention aren't proof enough of success, Perez says some competitors are even looking into developing programs modeled on Cisco's. That doesn't bother her a bit. After all, she says, "imitation is the sincerest form of flattery."

THE TOP 50

The ranking is based on three surveys. Career services directors at U.S. colleges tell us which employers top their lists. Those organizations then complete a survey on pay, benefits, and training programs, which we compare with others in their industries. Universum USA, a Philadelphia research company, surveys U.S. undergraduates on their most coveted employers. The employer survey is 50% of the final ranking; the two others contribute 25% each.

2009/ 2008 RANK	EMPLOYER/INDUSTRY[1]	ENTRY-LEVEL HIRING 2009 VS. 2008[2]	EMPLOYER SURVEY RANK	STUDENT SURVEY RANK[3]	CAREER SERVICES SURVEY RANK[4]	AVERAGE PAY ($000)	COMMENTS
1 / 2	**Deloitte & Touche**[5] Accounting	-1.1%	1	8	1	$55-$60	Last year's No. 2 takes the top spot with rich benefits, extensive training, and high pay.
2 / 1	**Ernst & Young** Accounting	-19.7%	6	3	6	$50-$55	The top accounting firm with students, E&Y is also the most diverse: 36% of new entry-levels are minorities.
3 / 3	**PricewaterhouseCoopers**[6] Accounting	-5.8%	22	5	2	$50-$55	PwC bests Big Four rivals on retention: 41% of partners have been with the firm 20+ years.
4 / 5	**KPMG** Accounting	-35.6%	17	11	5	$50-$55	KPMG has the richest 401(k) in accounting: Employees who set aside 5% of pay get a 3.8% match.
5 / 12	**U.S. State Dept.**[7] Nonprofit/Government	NA	12	2	24	$60-$65	Average entry-level pay is tops for government agencies in the ranking; 23% earn $75,000 or more.
6 / 4	**Goldman Sachs** Investment Banking	-57.1%	3	13	15	$60-$65	Hiring is down, but interns rule: 89% of 2009 entry-levels were interns, up from 49% in 2007.
7 / 11	**Teach For America**[8] Nonprofit/Government	10.8%	24	6	7	$35-$40	Teach For America has raised its recruiting in 2009 to 4,100 new corps members, up from 3,600 last year.
8 / 14	**Target** Retail	-18.7%	28	18	3	$45-$50	Only 14% of entry-levels got a bonus for personal performance during the downturn, but 91% are eligible.
9 / 10	**J.P. Morgan** Investment Banking	-25.0%	13	12	17	$60-$65	Hiring is down, but the internship pipeline accounts for 89% of new hires, up from 50% in 2007.
10 / 9	**IBM** Technology	NA	11	17	13	$60-$65	IBM offers graduate school sponsorships and the most generous 401(k) match in its industry: 6%.
11 / 47	**Accenture** Consulting	-30.2%	5	38	15	$60-$65	The highest pay in its industry, and virtually all entry-level hires get year-one performance bonuses.
12 / 24	**General Mills**[9] Consumer Products	-18.3%	3	33	28	$60-$65	In 2008, 62% of entry-level hires were female, besting even cosmetics giant L'Oréal (55%) in this category.
13 / 15	**Abbott Laboratories** Health	-41.3%	2	44	36	$55-$60	Retirement payday: One of the richest 401(k)s around, plus a pension and profit-sharing.
14 / 27	**Walt Disney** Hospitality	-77.1%	60	1	8	$40-$45	With minorities constituting 37% of new hires in 2008, Disney has its industry's most diverse workforce.
15 / 26	**Enterprise Rent-A-Car** Transportation	-7.6%	28	51	4	<$35	Enterprise has hired 3,950 new entry-level people through June 1, and it's not finished.
16 / 18	**General Electric** Manufacturing	-36.4%	19	16	9	$55-$60	Famous for its training programs, GE spends an average of $30,000 training each entry-level employee.
17 / 32	**Philip Morris USA** Consumer Products	-63.1%	8	50	19	$55-$60	Two out of three entry-level hires receive a performance bonus in their first year, which averages $4,900.
18 / 13	**Microsoft** Technology	-58.4%	28	9	34	$75+	With 90% of entry-levels earning $75,000+ per year, Microsoft has the highest pay among tech companies.
19 / 59	**Prudential** Insurance	-47.7%	9	55	37	$50-$55	Entry-level hiring for 2009 is down, but 95% of new hires won signing bonuses that average $5,000.
20 / 36	**Intel** Technology	-24.9%	14	23	63	$60-$65	All entry-level employees at Intel receive a performance bonus. Average amount: $5,000.
21 / 58	**Aflac** Insurance	-11.1%	9	55	62	$50-$55	Aflac's educational benefits include unlimited tuition payments, including grad school.
22 / 22	**Verizon Communications** Utilities	-18.6%	15	37	49	$40-$45	All entry-levels get performance bonuses averaging $5,061, one of the most generous in the ranking.
23 / 37	**CIA** Nonprofit/Government	NA	45	7	29	$45-$50	Generous education policy includes grad school sponsorship and annual tuition payments up to $5,000.
24 / 30	**Raytheon** Manufacturing	13.2%	23	39	19	$60-$65	The Leadership Development Program has up to four rotations plus executive/peer mentoring.
25 / 45	**Nestlé USA** Consumer Products	29.2%	20	31	44	$50-$55	So far this year, 43% of Nestlé's entry-level hires were former interns, down from 60% in 2008.

Note: All data excluding survey ranks are self-reported by employers. NR=Not Ranked; NA=Not Available. (1) Comparison group for employer survey. (2) For 55 employers, 2009 hiring was not complete at time of survey, and figures shown are for first five months of 2009 vs. same period in 2008. For 14 others, 2009 hiring is complete, and figures shown represent full-year 2008 hiring vs. full-year 2009. (3) Data supplied by Universum USA. (4) Ranking for Walt Disney combined with ESPN and ABC; ranking for PepsiCo combined with Frito Lay. (5) Hiring data based on July 1-June 30 fiscal year. (6) Hiring data include individuals starting later this year. (7) Hiring data are for Foreign Service Officer and Foreign Service Specialist positions not requiring advanced degrees; pay data are for Foreign Service Officer hires only. (8) TFA members are paid by the school districts that hire them, so salaries vary.

For a detailed description of the methodology and full list of 69 ranked employers, go to businessweek.com/bestplaces

2009/2008 RANK	EMPLOYER/INDUSTRY[1]	ENTRY-LEVEL HIRING 2009 VS. 2008[2]	EMPLOYER SURVEY RANK	STUDENT SURVEY RANK[3]	CAREER SERVICES SURVEY RANK[4]	AVERAGE PAY ($000)	COMMENTS
26 / 20	**Norfolk Southern** Transportation	-12.9%	16	55	47	$50-$55	Basic medical coverage, with few bells and whistles, is available at no cost to employees.
27 / NR	**Hyatt** Hospitality	-81.7%	21	27	58	$35-$40	Hiring is way off, but virtually every 2009 hire came from the intern pool, up from 20% in 2007.
28 / 39	**Union Pacific** Transportation	-12.7%	18	55	43	$40-$45	Completion of the Operation Management Training Program comes with a raise of up to 10%.
29 / 34	**Northwestern Mutual**[10] Insurance	-3.5%	26	49	27	$40-$45	Three out of four hires are gone after three years, but half of top execs have been on board for two decades.
30 / 25	**Boeing** Manufacturing	-27.5%	41	15	35	$45-$50	Nearly 80% of entry-level hires are still around after five years, the best retention among manufacturers.
31 / 41	**Liberty Mutual** Insurance	-46.9%	26	46	30	$45-$50	Retirement trifecta: pension, profit-sharing, and a 401(k) with dollar-for-dollar match up to 7% of pay.
32 / 43	**Travelers** Insurance	NA	32	47	19	$50-$55	Health insurance will set you back a few bucks, but dental and vision coverage are no extra charge.
33 / 28	**New York Life**[11] Insurance	75.7%	24	45	48	$35-$40	New agents get three years of training; salaries are among the industry's lowest.
34 / 6	**Marriott International** Hospitality	-70.2%	36	19	57	$35-$40	In an industry plagued by turnover, Marriott's retention is tops: 35% of new hires remain after five years.
35 / NR	**Entergy** Utilities	NA	28	55	52	$60-$65	One of the best retention rates in the ranking: 80% are still employed after three years, 75% after five.
36 / 56	**Macy's** Retail	-73.7%	49	22	19	$40-$45	All new entry-levels participate in a mentoring program; 63% stick around after three years, tops in retail.
37 / 77	**Merck** Health	-21.1%	39	30	37	$55-$60	Most entry-levels are eligible for raises and promotions in a year; two-thirds stick around for more than five years.
38 / 38	**AT&T** Utilities	-64.4%	36	34	63	$35-$40	Half of AT&T's employees get free health insurance; 25% pay no premiums for dental and vision coverage.
39 / 61	**Wells Fargo**[12] Financial Services	NA	49	26	14	$55-$60	401(k) offers a match of up to 6% of pay, and 89% of entry-levels get a performance bonus in the first year.
40 / 50	**MetLife** Insurance	-35.1%	33	43	61	<$35	So far this year, 45% of new entry-level hires have come from the intern pool, up from 29% in 2007.
41 / NR	**Johnson & Johnson** Health	NA	62	10	12	$55-$60	Set aside $1 in your 401(k), and J&J will pitch in $2. It will pick up the full tab for graduate degrees, too.
42 / NR	**Aramark** Hospitality	NA	35	52	55	$40-$45	Decent pay, but retirement benefits are another story. The initial 401(k) match is 1.5% of pay.
43 / 31	**Cisco Systems** Technology	-50.1%	43	35	37	$70-$75	All young hires are mentored; 91% stay around at least three years and 83% are still there after five years.
44 / 93	**Dell** Technology	-74.0%	41	32	59	$40-$45	Nearly three of four entry-level hires are minorities, making Dell the most diverse company in the ranking.
45 / 55	**Progressive** Insurance	-93.1%	33	52	63	$50-$55	Welcome aboard: 90% of 2009 entry-level hires received signing bonuses averaging nearly $2,700.
46 / 23	**Northrop Grumman** Manufacturing	-30.2%	53	29	11	$55-$60	Northrop recruited on 150 campuses in 2008-09—tops for manufacturing—and made offers at 118.
47 / 69	**IRS** Nonprofit/Government	-31.7%	46	25	45	$35-$40	The agency everybody loves to hate gets five times as many applications as the U.S. State Dept.
48 / 8	**Lockheed Martin** Manufacturing	-37.4%	59	14	17	$55-$60	More than half of Lockheed's top executives have been with the company at least 20 years.
49 / 95	**Protiviti**[13] Consulting	-32.7%	39	55	49	$50-$55	Entry-level hiring is down; 43% of 2009 hires came through the internship pipeline, up from 8% in 2007.
50 / 94	**Kohl's** Retail	-6.7%	44	55	32	$40-$45	Kohl's employees have three weeks annual paid vacation after only a year at the company.

(9) Hiring data include entry-levels with graduate degrees; pay figure includes salaries of MBAs in entry-level jobs. (10) Hiring data include corporate employees and sales agents. (11) Salary data are for corporate employees only; agents are paid on commission basis. (12) Salary figure does not include 13% of entry-level hires who are hourly workers. (13) Hiring figures are for consulting-practice employees only.

Data: *BusinessWeek*, Universum USA, Cambria Consulting.

WHERE HEADHUNTERS FEAR TO TREAD

By Dean Foust
Illustration by Gracia Lam

Recruiters are in surprising agreement as to which companies they avoid when looking for management talent

When Revlon hired Jack Stahl as CEO in 2002, the board thought he'd be a boss who could turn the cosmetics giant around. In his 22 years at Coca-Cola, where he rose to president, the telegenic executive had become a darling of Wall Street for his financial savvy and operational discipline.

Stahl stumbled, however, when he left Coke. While he managed to pare down Revlon's heavy debt load, he lost millions on failed campaigns for new products, most notably an "age-defying" makeup line called Vital Radiance. Industry consultants say he relied too heavily on finance types who made basic marketing errors: The line was overpriced, curiously didn't incorporate the vaunted Revlon name, and used no-name models in its campaign. After four years of losses during which the stock lost roughly two-thirds of its value, Stahl left in 2006. "He didn't know what he didn't know," says Suzanne Grayson, a consultant who worked for Revlon in the 1960s and '70s. "He brought in statisticians instead of marketers, and the decisions they made were atrocious." Stahl and Revlon didn't respond to requests for comment.

The Revlon case may reveal less about Stahl, though, than it does about the culture of Coca-Cola. Stahl's stumbles didn't surprise the fraternity of executive recruiters who handicap which companies provide the most fertile ground for talent. Stahl is just one in a line of former Coke executives who floundered elsewhere, including John K. Sheppard, former CEO at beverage company Cott, and Brent Willis, whose tenure as marketing chief at Kmart lasted all of four months.

BusinessWeek reached out to more than two dozen top headhunters and more than a dozen management consultants. The question: Which companies do they largely avoid recruiting from? Some of the most cited are known to be in turmoil—players such as Goodyear, Motorola, and Sears. (A Goodyear spokesman says it has "absolutely no issue" in retaining talent, while Sears says it has averaged 325 candidates for each headquarters job even though it has "significantly" cut back on using headhunters. Motorola declined to comment. *BusinessWeek* tried to reach everyone cited in this article.)

Recruiters also singled out companies that are widely viewed as successful. Consider Coca-Cola. The conclusion among headhunters is that the very attributes that make Coke a great company—an iconic brand and an unmatched global distribution system—also make it too easy for young managers to rise without having to develop the entrepreneurial skills necessary to compete in other arenas. "Coke is a great company with great brands," says Joe D. Goodwin, an executive recruiter based in Atlanta. But Goodwin says he can't recall any Coke alumnus who successfully ran a major company elsewhere. "People tend to get caught up in the Coke bureaucracy and get dead-ended in their careers," he says. "My advice is that unless someone intends to make a career of Coke, don't stay too long." Granted, working at Coke can make you comfortable—the stock has yielded a 24.8% total return over the past five years, vs. a 2.4% return for the Standard & Poor's 500-stock index—but recruiters say it may not make you management material anywhere else. A spokesman says alumni have gone on to successful stints at places like Home Depot and Clorox, though the goal is to keep them at Coke.

For all of the vaunted "academy companies" such as General Electric, IBM, and Hewlett-Packard, revered for honing executive talent that thrives elsewhere, a significant number of companies are seen as weak in that realm. They may do well financially, but they can't seem to cultivate leaders others want to poach. Whether it's their quirkiness, poor leadership development, or political culture, these players have become the corporate equivalents of the Hotel California: You can check in and enjoy your stay, but the risk is that you can't leave. Three of the companies named as problematic by recruiters—General Mills, AT&T, and Intel—made this year's ranking of best places to start a career.

Among the headhunters who spoke to *BusinessWeek*—usually not for attribution to protect their own careers—there was surprising unanimity about which strong companies were



suspect when it came to developing senior executive talent.

One trait that puts a company on the blacklist is excessive bureaucracy. That's why recruiters are far more likely to put executives from the private sector into the public sector than vice-versa. British Airways, General Mills, and Occidental Petroleum were repeatedly cited as companies that appear to discourage the kind of risk-taking and nimbleness that is valued in today's volatile environment. One search consultant compared British Airways, until 1987 a state-owned airline, to "working at the FBI." CEO Willie Walsh is shaking up the stodgy culture, but this recruiter argues that "it'll take decades to flush out a generation of bureaucrats at that place."

RED-FLAG CULTURES ARE THOSE THAT SUFFER FROM BUREAUCRACY, NARROW SKILL-BUILDING, RISK AVERSION, OR BOYS' CLUB AGGRESSION

At General Mills, recruiters take issue with what one describes as a "patrician culture of conflict avoidance," which tends to make some alumni ill-equipped to handle crisis. And at Occidental Petroleum, recruiters say the imperial reign of CEO Ray Irani has created an autocratic environment where managers at the oil giant simply wait for dictates from on high. "The employees who stay have made their deal with the devil because they're so well-paid," says one. Occidental didn't respond to requests for comment. But General Mills spokesman Tom Forsythe says the company's low turnover and double-digit growth speak for themselves. Moreover, he adds, "headhunters have historically enjoyed little success recruiting talent away from General Mills. That lack of success may have influenced the individuals you spoke with."

One peril is a tendency at some companies to relegate managers to narrow duties, thereby fostering limited skill sets. A case in point, according to Minneapolis recruiter Mark Jaffe, is Automatic Data Processing. As Jaffe jokes: "You can be the vice-president in charge of payroll services for veterinary offices with between 8 and 12 employees at ADP, and you can do that for 20 years." Jaffe says that makes it hard to tell "what a manager's abilities might look like beyond that miniature scope." Benito Cachinero-Sánchez, head of human resources for ADP, disagrees and says the company's strong financial performance and low employee turnover are a result "of the opportunities that are created within the organization."

Then there are the aggressors. Several Silicon Valley headhunters say they're now hesitant to recruit from two of the tech sector's most successful companies—Oracle and EMC—because of their testosterone-driven, take-no-prisoners cultures. Managers who thrive there, they say, are often bad fits anywhere else. One recruiter describes Oracle as "Silicon Valley's version of the Bear Stearns trading desk. You've got a company full of men who would all walk over their mothers to get to the top. And EMC isn't too far behind." Oracle declined to comment. But Jack Mollen, executive vice-president for human resources at EMC, makes no apologies for what he calls a "results-oriented" culture. "Some people might feel it's aggressive, but our people want to be put in jobs where they can work hard, take risks, and get recognized," he says. Mollen also finds the recruiters' criticisms ironic. "Funny," he says. "I ask the search firms to name the three hardest companies to recruit from, and they say 'Intel, Oracle, and EMC.'"

Intel is another place several headhunters and industry executives say they avoid. They marvel at the discipline and degree to which its 84,000 managers and employees march in lockstep behind management's decisions. But the trade-off, they say, is a culture built on the "paranoia" that co-founder Andy Grove took pride in. "The metaphor for Intel is the Politburo in [Soviet] Russia," says one headhunter. "It's a very inward culture." A spokeswoman says Intel believes its market strength and industry leadership position "is the best measure of the company culture as well as our employee and executive talent."

There is one company headhunters say deserves its own chapter: AT&T. They describe the telecom as a culture that seemed to reward executives more for political skills than results. While some budding talents, such as cable visionary John Malone, got out early and succeeded, the litany of AT&T executives who crashed after leaving the nest is like a virtual Management Hall of Shame: Carly Fiorina at Hewlett-Packard, Rich McGinn at Lucent, and Joseph Nacchio at Qwest (now serving time for insider trading). A company spokesman says it has a "strong, loyal, and committed management employee body."

Poaching talent is hardly an exact science. Recruiters say the days of plucking an all-purpose manager from a celebrated multinational may also be waning. As competition grows keener, industry knowledge becomes more important. Even GE has lost some luster, especially in light of Robert Nardelli's mixed record at Home Depot and Chrysler. It's hard to say how much of an executive's success is a result of a company muscle and how much reflects individual achievement. Often, the true test is what happens when they leave. |BW|

Business Exchange

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The Care and Feeding of Leaders

In a 2003 paper titled "Why Leadership Development Efforts Fail," Jay Conger and Douglas Ready note that for all the time and money that companies invest in crafting fancy programs to incubate next-generation leaders, these initiatives rarely yield results. Conger, a B-school professor, and Ready, a consultant, caution companies against outsourcing leadership development to highly paid experts or relying on off-the-shelf solutions. Future captains of industry are not made in "one-day, paint-by-the-numbers, 'edutainment' sessions," say the authors.

To view the article, go to **http://bx.businessweek.com/leadership/reference/**

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BP KEEPS ROLLING THE DICE

By Stanley Reed

Photographs by Robert Seale

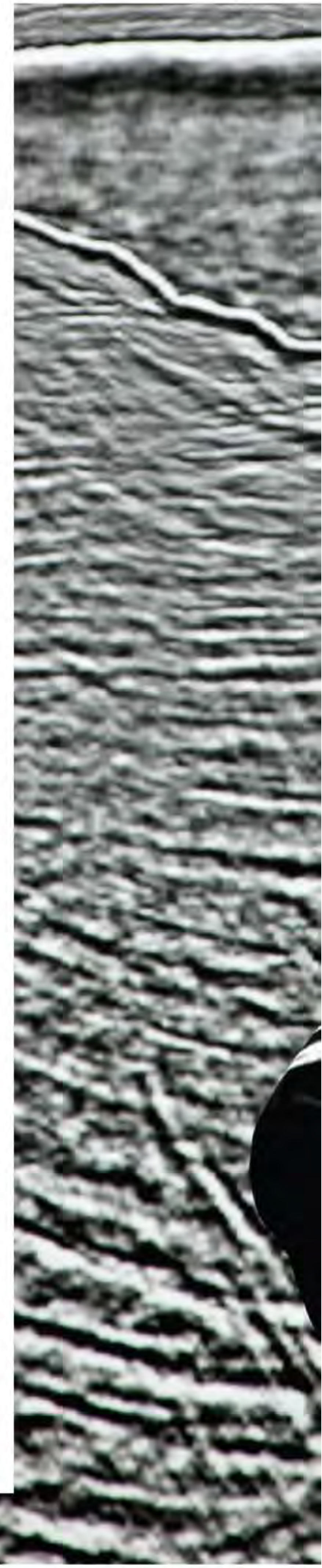
A vast new strike in the Gulf of Mexico is the latest sign of success in a high-risk, high-reward strategy

It may be one of the biggest oil finds of the year, if not the decade. In recent weeks, executives at BP's exploration centers in Houston and London have been closely tracking the progress of a very deep well that BP contractors were drilling into the seabed of the western Gulf of Mexico. In late August the exploratory well, known as Tiber, was completed. On Sept. 2, BP announced that it had made a "giant oil discovery" in the gulf. BP's chief of exploration, Michael Daly, terms the Tiber find "very significant" and says it is even "better" than the Kaskida field, another huge BP property in the Gulf of Mexico, with an estimated 4 billion to 6 billion barrels of oil in place.

BP has struggled recently, the result of highly publicized battles with its Russian partners and a series of accidents in the U.S. at its Texas refinery and on Alaska's North Slope. Now it is getting a shot in the arm from its gulf finds, which are just coming onstream with highly profitable oil. The London company's two-decade commitment to the gulf has also helped resurrect a region that was being dismissed as "the Dead Sea" in the early 1990s, after companies hit a series of dry holes. "With respect to the Gulf of Mexico, BP has done very, very well," says Richard Gordon, president of Gordon Energy Solutions, an Overland Park (Kan.) oil and gas consultancy.

Tiber and Kaskida will take years to develop, and BP runs the risk of cost overruns, another crash in the price of oil, and unforeseen, expensive challenges in extracting all that crude. But when a field produces, the payoff can last for years. BP's star gulf property, a massive oil and gas field about 140 miles southeast of New Orleans called Thunder Horse, is already raking in cash for the company and for its minority partner in the project, ExxonMobil.

Visitors to the BP production platform must first board a





“We don’t do simple things,” says BP’s Inglis, standing before a seismic map of oil deposits

AS BIG AS A SPORTS STADIUM, THE THUNDER HORSE PLATFORM IS TETHERED TO THE OCEAN FLOOR BY HUGE CHAINS IN WATER 6,000 FEET DEEP

helicopter at an airstrip at Houma in the Louisiana bayou. Dodging thunderstorms, the chopper flies over a seascape that reveals the history of the gulf oil industry, as the platforms evolve from shack-like structures in shallow water to massive, deepwater drill ships farther out to sea. Finally, a monstrous gray platform floating on four red legs comes into view. The size of a sports stadium, the Thunder Horse platform is tethered to the ocean bottom by huge chains in 6,000 feet of water and is one of the biggest in the world.

For Andy Inglis (pronounced Ingalls), BP's exploration and production chief and Daly's boss, Thunder Horse is worth all the snafus and delays the company had to overcome before it could coax oil from the seabed far below. The company and its suppliers had to devise dozens of new components and materials for the platform, such as valves and coatings to withstand the searing temperatures and intense pressures on wells that must go through four miles of seabed. In 2005 a hurricane left the platform listing to one side, and in 2007 a mass of equipment connecting up the wellheads on the sea floor had to be brought back to the surface to fix faulty welds.

WORKING ON THE FRONTIER

Now, the property is finally ramping up to its 300,000-barrels-per-day target—making it the No. 2 producer in the U.S. after Alaska's Prudhoe Bay. The oil from this gulf field is among the most profitable in BP's portfolio. Fadel Gheit, an analyst at Oppenheimer in New York, figures that at a price of $60 per barrel, BP will earn pretax profits in the mid-$20s per barrel from Thunder Horse, perhaps four times what it earns in high-tax Russia.

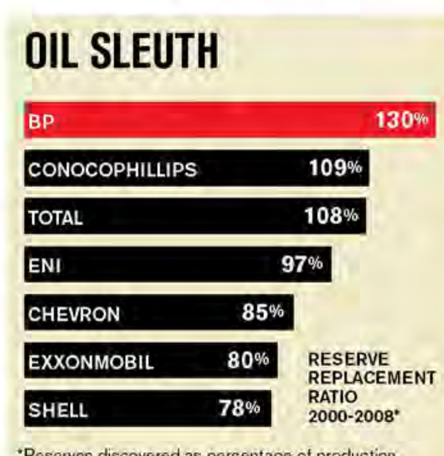
Two other huge deepwater Gulf of Mexico fields, BP's Atlantis and Mad Dog, have also come onstream, making BP the lead producer in the gulf. Deepwater exploration has added about 1.2 million barrels per day to total U.S. output, arrested a long decline in American production, and decreased U.S. dependence on imported energy. The gulf is "one of the few bright spots in global oil production," says Bob MacKnight, an analyst at consultants PFC Energy in Washington. BP now reckons an additional 22 billion to 40 billion barrels of reserves are to be found there.

Finds like Thunder Horse, Tiber, and Kaskida fit BP's high-risk, high-return strategy nicely. "We don't do simple things," Inglis says. "We are prepared to work at the frontier and manage the risks." BP wants to do big projects of a billion barrels or more because that's the only way to replace the huge volumes that it produces, and large scale translates into high returns. Unlike ExxonMobil and Royal Dutch Shell, which have substantial refining and marketing operations, BP is largely an exploration and production company. BP wants to get the choice deals ahead of everyone else, even if that means courting trouble along the way. Witness TNK-BP, the company's turbulent though lucrative joint venture with a group of Russian oligarchs who forced the ouster of the venture's expatriate CEO last year. Then there's BP's lonely decision a few weeks ago to become the first big oil company to return to Iraq. ExxonMobil and Royal Dutch Shell, in contrast, balked at the Iraqis' tough terms.

Exploration wells in the deepwater Gulf of Mexico take months to drill and cost up to $200 million. With an overall exploration budget of $600 million to $1 billion per year, BP goes to great lengths to make sure it is taking the right risks. Four times a year, exploration boss Daly gathers his 15 or so chief lieutenants from around the world, usually in Houston or London, to decide where to spend money next. The goal is to back the best ideas—not just spread the exploration budget evenly among various teams. The team that proposes a drilling prospect sets out in a few pages what it expects to find, including the amount of oil and gas and the cost of drilling. According to one participant, discussions can get quite tense, "because people are battling for projects they care about." BP's success rate on the 15 to 25 exploration wells it drills per year: about 60%.

For the past eight years, BP has led its peers among the majors, in what's known as organic reserve replacement—additions to its reserve base that don't include any oil picked up through mergers. Says Irene Himona, the analyst at Exane BNP Paribas who ranked the companies according to their reserve replacement: "[BP] has created, through exploration, very large assets that go on producing for the next 20 to 30 years."

Things weren't always so upbeat. BP got its feet wet in the deepwater of the gulf more than 20 years ago. But, along with other companies, it hit a dead end in the early 1990s, drilling a series of costly dry holes trying to replicate Shell Oil's deepwater success there. David Rainey, a dry-mannered Northern Irishman who now heads BP's gulf exploration team, recalls how other companies gave up, thinking the area was played out and too expensive, while the former Soviet Union, which was just opening up, looked more attractive than it turned out to be.



*Reserves discovered as percentage of production, excluding asset purchases and sales
Data: Exane BNP Paribas

Cindy A. Yeilding, a Southern Methodist University graduate who bids for BP at U.S. government auctions of



BP's Yeilding says the company almost gave up on the gulf

The explorers soon identified Thunder Horse as a potential "elephant"—industry slang for a colossal find. But skeptics inside BP worried that the rocks bearing the oil were so deep and subject to such high temperatures that they would not be porous enough to let oil flow through. BP decided to drill an exploratory well to find out. In April 1999, the well hit oil.

Recently, the company's exploration team has been locking up positions in even more difficult areas west of Thunder Horse. In August, BP led the bidding at the biannual lease auctions held by the Minerals Management Service of the Interior Dept. in New Orleans. BP bid about $50 million of the $145 million bid by all companies for about 40 tracts in the western gulf near Tiber.

BP has also been coming up with new ways to see through the ancient salt layers, thousands of feet thick, that cover much of the oil and gas accumulations in the gulf and other deepwater regions. Oil companies had shied away from the salt because it distorts seismic waves, obscuring what's underneath. But BP's team has figured out how to look under the salt by employing new techniques, such as towing ribbons of seismic sensors behind boats over suspected fields to obtain sharper images of what lay below. "We stopped being afraid of the salt," says Yeilding, who has spent time in France and Canada studying rock formations like those at the gulf's bottom.

Deepwater is now a favorite haunt of BP. The company is a major presence in the waters off Angola and is probing the Beaufort Sea in the Canadian Arctic. BP likes to apply what it has learned in the gulf and Alaska to other zones. One play it is beginning to scope out is the Gulf of Sirte off Libya, where prospective oil and gas deposits lie in the sands put down by ancient river systems. Outbid in open bid rounds, the company spent two years lobbying Muammar Qaddafi to grant BP a concession involving huge swaths of offshore and onshore acreage exceeding the size of Belgium. Daly says the next meeting of his explorers will give the green light to the first Libyan wells.

The BP exploration group knows that no matter how many Thunder Horse and Tiber winners they hit, they had better not become smug. Two years ago they drilled a prospect in the gulf that had them so excited they called it Big Kahuna. As it turns out, they had the geology wrong and found nothing. "We try to stay humble," Rainey says. "When we don't, we get kicked in the behind." |BW|

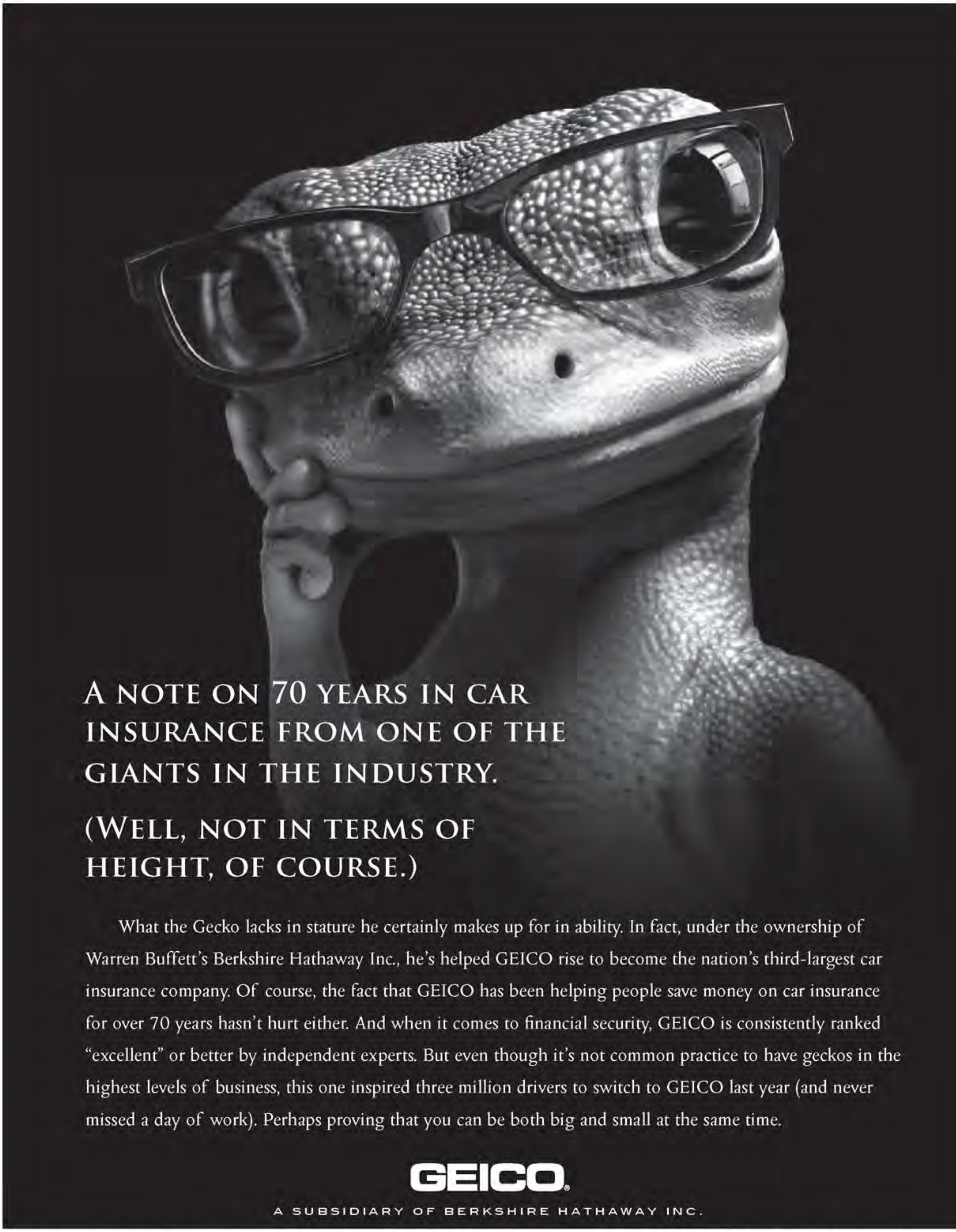
gulf oil acreage, recalls fearing that BP's gulf group, too, would get the chop. But BP's brain trust looked at the pattern of the few discoveries that had been made in the deepwater and saw they were large and not trailing off in size, which is usually the case in a maturing area of production. The call: While the region was tricky, it still had a world-class future. And since it was under the control of the U.S., rather than a developing-world dictator, the oil was more accessible.

THINKING SMALL

BP management told its explorers to go back to the drawing board. They had been drilling spots that looked good on seismic surveys, the maps generated by bouncing sound waves off the rocks below the earth's surface, but that approach had failed. So armed with new technology that allowed them to drill much deeper, the explorers went back to basic petroleum geology: Their aim was to figure out where in the gulf large amounts of oil, which is formed from the remnants of microorganisms that died millions of years ago, might have migrated up through the earth's crust and then hit a seal of rock and salt. "You have to learn to think like an oil molecule," Rainey says.

One BP explorer, Neil Piggott, even went 2,000 feet down in a submarine to get a firsthand look at oil and gas seeping out of the sea bottom. There in the inky darkness he saw masses of bacteria feeding on the oil and bizarre 30-foot-long tube worms that in turn were eating the bacteria. The seeps were further evidence that there was more oil farther out in the gulf.

ROBERT SEALE



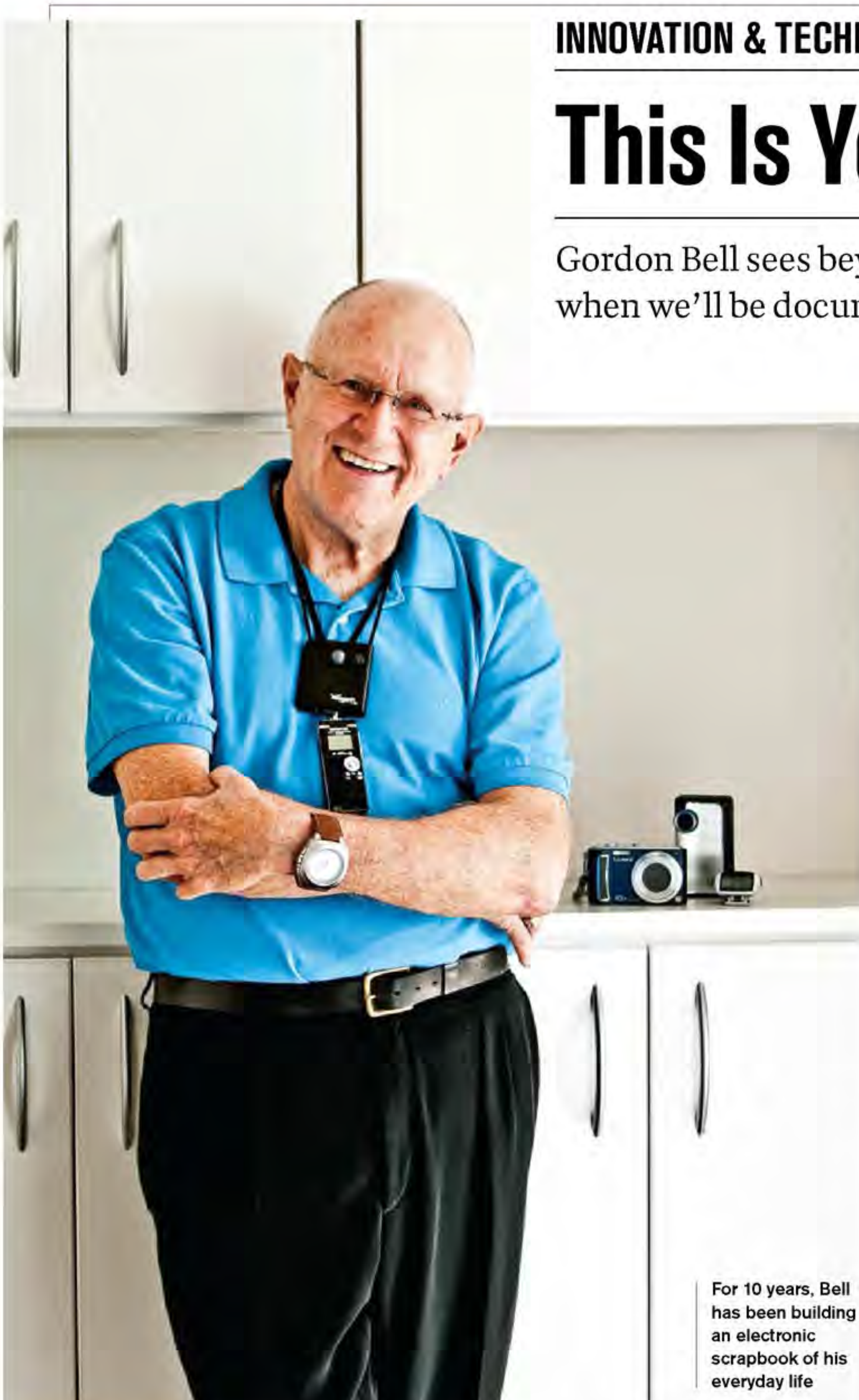
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INNOVATION & TECHNOLOGY

This Is Your Lifelog

Gordon Bell sees beyond the Twitterverse, when we'll be documented in digital detail



For 10 years, Bell has been building an electronic scrapbook of his everyday life

ERIC MILLETTE

By Stephen Baker and Arik Hesseldahl

Gordon Bell, a 75-year-old legend of computer science, strolls around the San Francisco offices of Microsoft Research wearing what looks like a heavy black necklace. It holds a camera the size of a deck of cards. It's called a SenseCam, and it snaps photos every few minutes, or whenever a change of light signals that Bell has stepped into a different room. Sometimes Bell reaches down and takes a picture himself. One more image for his enormous memory bank.

For the past 10 years, Bell, a senior researcher at Microsoft, has been leading the life of a digital pack rat. He has been recording the twists and turns of his existence and storing all this information in vast digital files. Bell takes pictures and records his phone conversations. He maps the path of his footsteps and scans every shred of paper worth saving. All this effort is to build an electronic memory, a digital adjunct to the faulty and often delusional one between our ears. In an engaging new book, *Total Recall*, which Bell wrote with colleague Jim Gemmell, he argues that growing numbers of us—strange though it may sound—will soon be following his lead.

It would be easy to dismiss Bell as an outlier. Even with technical help from Microsoft, the digital docu-

menting of a single life—"lifelogging," Bell calls it—is immense work. Yet Bell, a key figure in the development of microprocessors and the Internet, points out that millions are already pouring their lives onto social networks and Twitter. He says that lifelogging "is the next step."

Technology is evolving to support his case. Millions of us already carry a rudimentary lifelogging tool, the cell phone. And as phones add more features, from video cameras and e-mail to global positioning technology, their potential to record daily activities grows.

At the same time, companies are developing a host of specialized gadgets and Web services to sell to the growing ranks of self-observing datahounds. A new sleep-monitoring device called Zeo provides a minute-by-minute record of each user's deep sleep and rapid eye movements. A pen-shaped gadget from Livescribe turns notes into digital images and records audio from conversations and meetings. And a popular data service called Evernote allows people to pile anything they read or see online in to a vast digital drawer. For some of the 1.5 million users, it amounts to a record of their intellectual life. "We want to be a permanent repository of your memory," says Evernote CEO Phil Libin.

One goal for the early lifeloggers is to track and optimize performance, from the bottom line to the waistline. Bell, who has undergone two heart bypass operations, has analyzed his own data to draw correlations between his diet, exercise, and symptoms of angina—and to fine-tune his regime. Esther Dyson, a technology commentator (and an Evernote board member), predicts that markets will open for software to "extract order and meaning from the chaos of proliferating data."

In many areas, electronic memories could provide lifeloggers with an edge. Already, parties in divorce or workplace harassment suits use location data from cell phones and electronic toll booths to supplement or contradict human memories. Data zealots could take this further by producing records of their conversations, e-mails, and dinner meetings.

Yet data could be used against those who collect it, too. Courts conceivably could subpoena lifelogs, much the way the special prosecutors subpoenaed President Richard Nixon's Watergate tapes. And personal monitoring by lifeloggers could threaten other people's privacy. This raises thorny questions. Will people have to establish ground rules for on- and off-the-record recording? "We'll have to come up with protocols," says Bell. (Before Bell's recorded phone calls, an electronic voice announces that the conversation is being taped.)

The ultimate target for Bell is to create a searchable and ultra-detailed memory for all of us. For most people, the last week or two occupies most of the memories, with much of the past largely fading from our minds. Entire months, or even years, can be reduced to a few dinners, trips, or songs. But a record such as Bell's brings back every hour and every encounter. In his book, Bell points to Cathal Gurrin, a lifelogger at Dublin City University who has in a rotating digital photo album on his desk a shot of the moment he met his girlfriend. "Not that I knew she'd become my girlfriend at the time," Gurrin tells Bell.

In a sense, lifelogging is already afoot inside corporations. Faced with tighter tax, legal, and compliance regimes, companies are storing ever greater quantities of documents. But the march of digital data is bound to go much further, with each worker generating growing streams of information. Already, the Pentagon is looking into using such data to profile workers and soldiers and to teach others how to do their jobs. Similar research is taking place at tech companies, including IBM.

Of late, Bell has eased back on lifelogging. Microsoft opted not to develop its own suite of commercial lifelogging products given other priorities, so he and Gemmell moved on to other projects, such as building databases for cancer research. But even as he walks the streets of San Francisco, Bell still wears his SenseCam and feasts on the data of his life. "Did you know," he asks, studying a lunch menu, "that there are only three calories in a seedless grape?" BW

THE TOOLS OF LIFELOGGING

Pioneers such as Gordon Bell use new gadgets and Web sites to record and measure their lives.

NAME	PRICE	DESCRIPTION
Zeo	$399	A monitor records brainwaves and charts the patterns and quality of each night's sleep. A Web service helps users optimize their Zs.
Bodybugg	$199	Calorie-counting system mounted on an armband. It estimates energy burned; user has to record food consumption and upload it to the Web.
Livescribe	$149-$199	A digital pen that turns notes and sketches into image files. It also records the sound of conversations, meetings, and lectures.
Fujitsu ScanSnap Scanners	$300-$500	Copies important documents by turning them into digital files. Text-recognition software makes them searchable.

Data: *BusinessWeek*



Bell's goal is to create a searchable memory for everyone

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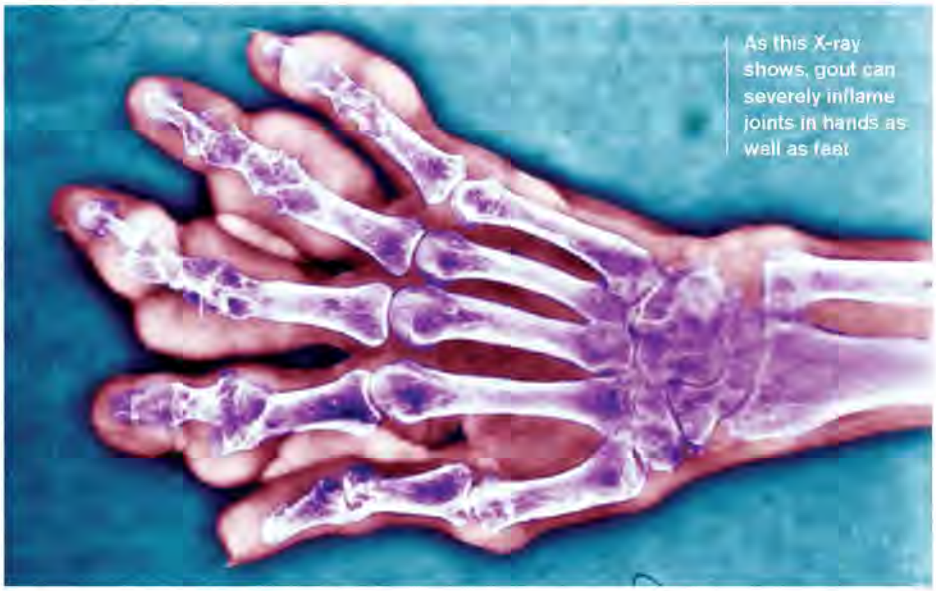
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As this X-ray shows, gout can severely inflame joints in hands as well as feet

Seeing Opportunity in Obesity's Side Effects

Drugmakers are ratcheting up research into treatments for gout and other ills that plague the overweight

By Catherine Arnst

In the past six months, the U.S. Food & Drug Administration has considered whether to approve three new drugs for gout, a painful malady once called "the disease of kings" because of its association with rich living. It is an unusual confluence, given that there have been no new treatments for gout for more than 40 years.

But gout, suffered by such notable figures as Henry VIII, Benjamin Franklin, and Shakespeare's Falstaff, is on the upswing. So are sleep apnea, kidney disease, hyperthyroidism, and newer disorders such as metabolic syndrome—a collection of risk factors for heart disease and diabetes barely recognized before the 1970s. In women, there's a rise in ovarian cysts that can lead to infertility.

All of these seemingly unrelated illnesses share a common link: They are among the side effects of obesity, which now affects about one-third of U.S. adults, according to some definitions. The U.S. Centers for Disease Control & Prevention estimates that medical spending on diseases related to obesity has nearly doubled in the past decade, to $147 billion, 9.1% of total medical spending.

As a result, the pharmaceutical industry is ratcheting up research into treatments for these once-uncommon illnesses. "I think we're going to see several new drugs for obesity and related conditions in the next 5 to 10 years," says Dr. Caroline Apovian, director of Boston University's nutrition and weight management center. "They won't be panaceas, but they will be valuable additions to the toolbox."

Many adults these days are trying to shed pounds on their own, but drugmakers needn't worry about being carved out of the picture. "Lifestyle modification only gets you so far when you are already obese," says Brian Lasky, consultant with drug market researcher IMS Health. "It's very hard to reboot the body on your own. Better drugs are essential." The market for drugs that treat obesity complications should be worth billions, he says.

Getting such drugs to patients isn't easy, however. One obesity treatment after another has failed in recent years, either on the market or at the FDA, because of such side effects as depression, heart problems, and diarrhea.

Gout medications haven't had a much easier time. The disease is caused by excess uric acid in the blood that accumulates around the joints, causing pain and inflammation. The incidence of gout started rising about 20 years ago along with obesity, and



BEYOND DIABETES: DISEASES RELATED TO OBESITY

GOUT
Caused by uric acid crystals settling around joints; associated with obesity, though the link is not understood

SLEEP APNEA
Fat around the neck obstructs air passages, causing breathing interruptions that lead to fragmented sleep patterns

POLYCYSTIC OVARY SYNDROME
In women, obesity stimulates estrogen overproduction, causing ovarian cysts that can lead to infertility

METABOLIC SYNDROME
Symptoms include abdominal fat, high blood pressure, insulin resistance, and high cholesterol

(TOP TO BOTTOM) BSIP/PHOTO RESEARCHERS; THE BRIDGEMAN ART LIBRARY/GETTY IMAGES

today there are some 5 million sufferers in the U.S. The journal *Clinics in Dermatology* warned three years ago that "we may be in the midst of the third great gout epidemic of Western Civilization." (The first two occurred during the height of the Roman and British empires.)

Generic anti-inflammatories have been the most common treatment for decades, although they are of limited benefit for many people. In February the FDA approved something new: Uloric, from Takeda Pharmaceuticals. But it took the Japanese company five years to convince the agency that the drug is safe. And on Aug. 2, the FDA delayed another treatment for the disease, Krystexxa from Savient Pharmaceuticals, which was ordered to submit new data on side effects and the manufacturing process.

DISRUPTIVE SNORING

The problems of obesity will stimulate demand for medical devices as well as new pharmaceuticals. Sleep apnea, characterized by loud snoring and intermittent wakefulness because of the collapse of the upper airways during sleep, is a common side effect of excess weight around the neck. A recent study by Irish consulting firm Research & Markets forecasts that the world market for respiratory devices, including those that help apnea patients breathe at night, will double by 2015, to $7.4 billion. And while the economic slump has hurt some medical companies, ResMed, a leading maker of sleep apnea devices, saw profits rise to $45.4 million last quarter, up 53% from the same period last year. "The market has remained healthy all during this time," CEO Kieran T. Gallahue told investors.

Drug companies are particularly interested in coming up with treatments for metabolic syndrome, a basket of symptoms that includes abdominal fat, high cholesterol, and high blood sugar. But research is complicated by the fact that the FDA does not recognize metabolic syndrome as a disease. "Until there is a regulatory path to approval, it's hard to move forward," says IMS's Lasky. Nevertheless, Merck and Eli Lilly are both developing drugs for the disorder. |BW|

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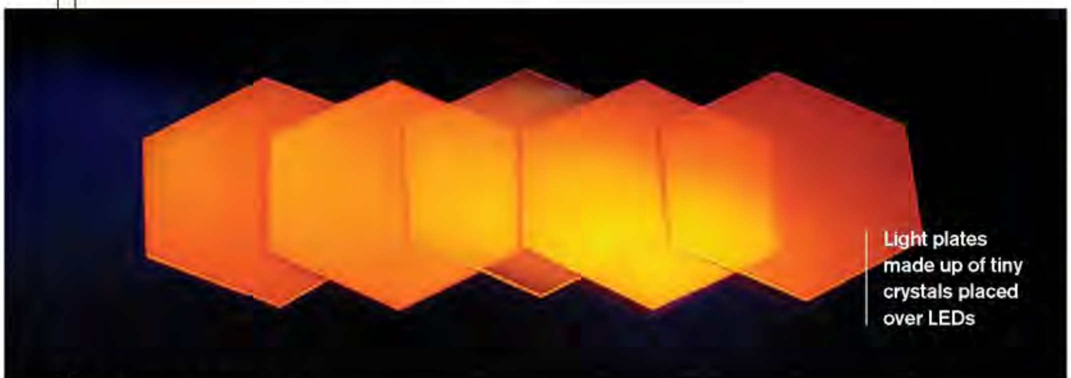
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Light plates made up of tiny crystals placed over LEDs

SAVING ENERGY

A Quantum Leap For Lighting

Compact fluorescent lights are leading the race to replace the incandescent bulb. But while efficient, CFL light can be harsh. Ditto for light-emitting diodes, or LEDs, which use even less power but are more costly. QD Vision, a Watertown (Mass.) startup, says it can lower energy use and improve light quality by combining LEDs with tiny synthetic crystals they call quantum dots. Measuring just 5 billionths of a meter wide, the crystals glow when excited by a trickle of electricity. QD Vision and its partner, Nexxus Lighting, are coming out with a $100 bulb that uses 12 watts, matches the output of a 75-watt incandescent bulb and can last 50 times longer. The device is aimed at retailers who want to cut their energy use and lower the labor costs of replacing bulbs. With funds from the U.S. Energy Dept. and the U.S. Army, QD Vision is also developing flexible light sources and large displays made with its quantum dots. *–Reena Jana*



SUN POWER

Second-Class Solar Panels?

Sun-soaked New Orleans should be a great place for solar power. Yet according to TÜV Rheinland PTL, a testing lab, up to 30% of photovoltaic panels installed in such steamy areas of the U.S. are likely to fail in less time than the 25 years manufacturers typically specify in their warranties. Homeowners will be covered, of course, but it will still be a hassle. Even in hot, dry areas failure rates could hit 12%.

The same producers' panels probably won't fail as quickly in Europe, where vendors agreed to performance and quality standards back in 1999. In the U.S., only the state of Florida has followed suit. As a result, "manufacturers make two grades of panels: one for the U.S. and another for Europe," says Mani Tamizhmani, TÜV's president. Panels do have to pass federal tests for safety in the U.S. but "consumers here don't yet know to ask for quality certifications," he says.

Photovoltaic panels are likely to fail more often in the U.S. than in Europe

INNOVATIONS

Paper, Plastic, Or Pebble?

Many eco-conscious shoppers are already switching to reusable cloth bags instead of paper or plastic. Now they have another option: rock.

Called TerraSkin, the material is composed of three parts calcium carbonate—limestone, in essence—and one part polyethylene. Unlike conventional paper, TerraSkin requires neither water nor bleach to make, and it is manufactured using just half the energy, says Design & Source Productions, which distributes TerraSkin. And though it's tough-wearing, TerraSkin breaks down into a benign talcum-like powder in a few months when exposed to sunlight and humidity, according to tests by the Advanced Materials Center.

For now, manufacturing volumes remain low, keeping the price high. New York's Museum of Modern Art recently bought 682,000 TerraSkin sacks for its gift shop, paying about 25% more than for plastic bags. Other customers include Burt's Bees and Hilton Hotels.
–Venessa Wong



(BOTTOM LEFT) DAVID MCNEW/GETTY IMAGES


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Indian IPOs Sizzle, But for How Long?

Big foreign investors are snapping up issues—but overpricing is spooking small investors



The Bombay stock exchange displays the benchmark Sensex index

By Mehul Srivastava

MUMBAI

Is India in the grips of IPO fever? The symptoms are certainly there. As many as 40 Indian companies plan to list their shares on the Bombay stock exchange in the next few months, hoping to ride the coattails of a post-election rally that has propelled the benchmark Sensex index up more than 30% since mid-May. And there's no shortage of demand for the new paper. When state-run National Hydro Power (NHP), one of India's largest electric utilities, decided to offer the public a measly 14% of its shares, the issue was more than 20 times oversubscribed. The Aug. 31 IPO raised $2.1 billion, making it one of the biggest on record for India. "Things are looking up, there's a relatively stable government in place, and there's an appetite for this sort of thing," says Ashok Kumar, who runs theIPOguru.com, a Web site that tracks new Indian listings.

But investor beware. This gold rush is looking different from the one in 2007, when 100 IPOs mopped up an average of $100 million apiece. Companies priced their shares then on the low side, which gave investors a gratifying pop on the first trading day. This time sellers seem to be doing the opposite. Shares of NHP seesawed the first day but closed just 3% higher. Much the same happened with the July 28 IPO for Adani Power. Again the issue was oversubscribed, with foreign investors, including Credit Suisse Group and T. Rowe Price International, having put in for three times as many shares as the company was allowed to sell under market rules, a director at the company said. Yet the stock closed flat on the first day and is now trading at just 1.2% above its initial offering price.

The trend has spooked Indian retail investors, many of whom were burned by the Reliance Power IPO in January 2008. While the placement raised a record $3 billion, shares of Reliance Power plunged 21% in the first day of trading. That disastrous debut pricked the Indian IPO bubble, prompting the cancellation of more than $1.7 billion in planned new offerings. "It's the Reliance Power factor," says R. Venkatraman, a 28-year-old software engineer who quit investing in IPOs in 2008. "Now, IPOs just don't list that well."

These days it is foreign institutional investors that are doing much of the buying. Desperate to diversify in a market dominated by fewer than 50 Indian blue chips, they are eagerly gobbling up the institutional tranches set aside for them under current stock exchange rules. "It's a large market made up by a small number of companies," says a representative of a U.S. private equity firm, who asked not to be identified because he's involved in an Indian IPO himself. "So you wait for a decent new company and load up as much as you can."

That's music to the ears of the Indian government, which is embarking on a divestment program that could yield some $20 billion in IPOs in the next 12 months. And if a proposal that would force all listed Indian companies to have at least 25% of their shares in public hands is adopted, a further $40 billion in share sales could flood the market over the next five years, a *BusinessWeek* analysis shows. However, a few lackluster offerings could ruin the party for everyone. Says Kumar: "If you have two or three more IPOs like Adani and NHPC that are overpriced and tank on their issue, it could kill off the entire market." |BW|

POST-ELECTION RALLY



Data: Bloomberg

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GARY NEILL

ANALYSIS

The Sell-Side Gets A Bum Rap

Sell-side analysts who work at investment banks and securities firms have a bad reputation. Critics contend their buy, sell, and hold calls are often wrong. And regulators have worried the recommendations may be biased since the banks typically collect fees for other services from the companies they rate.

But a new study suggests that sell-side analysts dole out relatively good advice. The authors, who looked at stock recommendations from 1997 to 2004, found that sell-side analysts outperform their counterparts at mutual funds and other money-management firms, the so-called buy-side analysts. Over the eight-year period, the sell-side picks beat the buy-side's by 6 percentage points. Why? The authors speculate that securities analysts at investment banks are subject to more scrutiny because their recommendations are published. "Everyone knows the results of the [sell-side] ratings," says Harvard Business School professor Paul Healey, who worked on the study. "If you're not doing very well, you don't stay around very long." –*Ben Levisohn*

BUYBACKS

Goldman Sachs' Poor Self-Appraisal

Goldman Sachs' savvy trades have produced outsize profits over the years. But when it comes to buying and selling its own stock, the investment bank has a shoddy record. Between 2006 and 2008, Goldman spent about $18 billion buying back 100 million shares at an average price of 184. Then the financial panic hit last fall, and Goldman had to scramble to raise capital. The company has since sold nearly $12 billion of stock at 123 a share. In essence, it lost $6 billion buying high and selling low. Goldman, whose stock currently trades at roughly 160, declined to comment. –*David Henry*

天津滨海新区 - 中国经济发展新的增长极

Tianjin Binhai New Area:
New Growth Pole of Chinese Economic Development

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The State Council of China approved that Binhai New Area is the pilot area of national overall reform. It covers an area of 2270 square kilometers. Binhai New Area will become another new economic growth pole succeeding Shenzhen Special Economic Zone and Shanghai Pudong New Area. We are determined to build Binhai New Area into a habitable eco-city characterized with economic prosperity, social harmony and beautiful environment.

Binhai New Area has the world fifth biggest comprehensive trade port in terms of handling capacity and is the international airfreight center in North China, and gathers a number of functional zones such as the state-level economic development area, Free Trade Zone, Tianjin Binhai Hi-tech Industrial Development Zone, Dongjiang Bonded Port, Airport Logistics Processing Area and Export Processing Zone.

The leading industries, including electronics information, petroleum and marine chemical, automobile and equipment manufacturing, modern metallurgy, biotechnology and modern medicine, new materials, and energy and food processing, have been well developed in Binhai New Area, and new leading industries, such as aviation and aerospace industry as well as service outsourcing industry are on the upsurge.





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In a business world where the only constant is change, continuing education is becoming a mandatory course of action. Smart professionals are increasingly turning to the Internet to advance their skills, increase productivity and minimize time away from the office.

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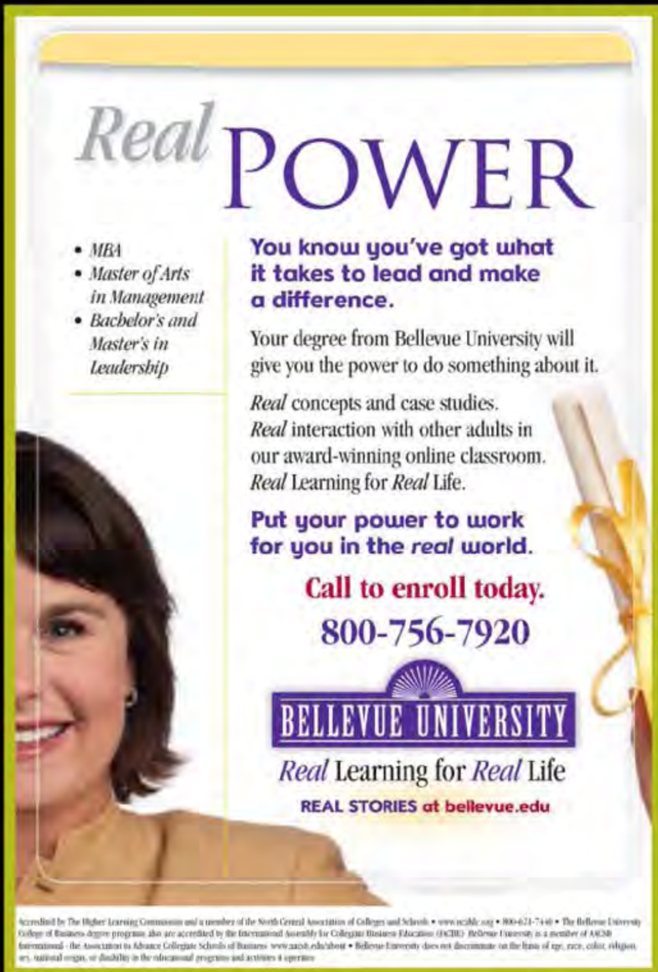
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Tata: Clawed by Jaguar and Land Rover

The British car lines are bleeding money, and their Indian owner is getting no help from the U.K.

By Mehul Srivastava

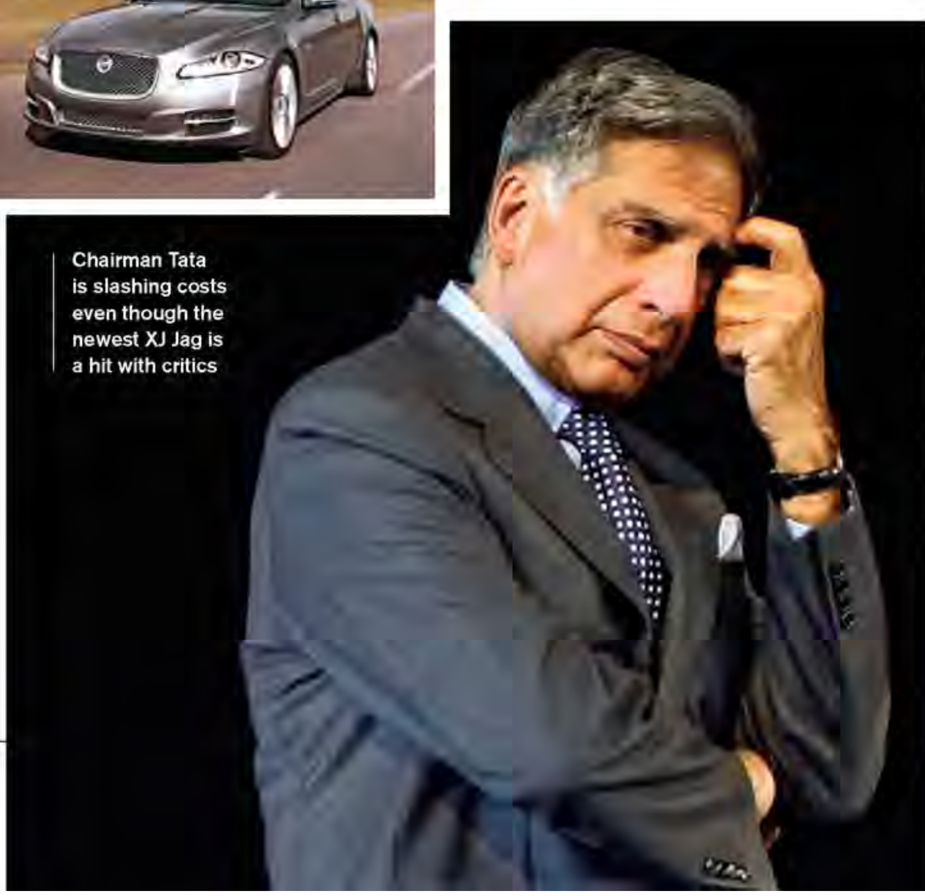
MUMBAI

To show off the new Jaguar XJ, Tata Motors in July rented a gallery in London's fashionable Chelsea district and flew in Jay Leno and other stars. With its muscular new design, the $73,000 car has won rave reviews. Tata, which a year ago paid Ford Motor $2.3 billion for Jaguar Cars and its cousin, Land Rover, seemed to have good reason to be upbeat.

Yet buying Jaguar and Land Rover has so far not worked out well for Ratan N. Tata, chairman of both the sprawling $64 billion Tata Group and Tata Motors. Unit sales of Jaguar and Land Rover are down 52% for the June quarter. The brands lost some $1.1 million a day in the same period, pushing the otherwise profitable Tata Motors to a $67 million loss. Tata still needs to spend $1 billion-plus a year in research and development on new models and making power-hungry Jaguars and Land Rovers meet new European emission standards. Among the options: replacing heavy steel with aluminum and more efficient engines such as hybrids. In Mumbai on Aug. 26, Ratan Tata defended the acquisitions as "very much worthwhile," while Tata Motors Vice-Chairman Ravi Kant said on Aug. 31 that the R&D spending would likely continue for five more years.

Funding all this activity has been a headache. Tata this spring rustled up a $480 million loan from the European Investment Bank to help make its cars greener, and it wanted an extra $290 million to cover operating expenses for Jaguar and Land Rover. But Tata needed loan guarantees from the British government. In exchange, Peter Mandelson, the Business Secretary, wanted a seat on the board and the right to fire David Smith, the chief of Jaguar and Land Rover, according to Tata executives. Tata balked, and in August the company gave up on the government and got guarantees from private banks. The British government maintains it couldn't go forward unless it was assured that taxpayers' money would be protected.





Chairman Tata is slashing costs even though the newest XJ Jag is a hit with critics

AN EQUITY SALE?

Tata was stung by the experience. "We learned our lesson," says a Tata executive who asked not to be named because the company declined to comment for this story. "We are on our own." Tata has lowered inventories, saving $250 million, cut three British factories to single shifts, and eliminated some 2,500 jobs. Unite, a union representing Jaguar and Land Rover workers, agreed to $110 million in cuts such as pay freezes and shorter work hours. "We feel Tata has done exactly the right things to deal with [the crisis]," says Unite leader Dave Osborne.

Jaguar and Land Rover won't likely break even before 2011, estimates brokerage firm Indian Development & Finance Corp.—and that would require a rebound in the global economy and new models that can claw back market share. And with less than $300 million in cash on hand, Tata Motors may need to sell equity to raise more funds.

The biggest expense is apt to be Land Rover, which may require a major rethink as Americans and Europeans shun SUVs. "Land Rover needs to tweak its entire image," says Paul Newton, a London analyst at research firm IHS Global Insight. "The complication is the huge amounts of money that will take." |BW|

(BOTTOM) ADNAN ABIDI/REUTERS

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MONEY REPORT

RETAIL AT RISK



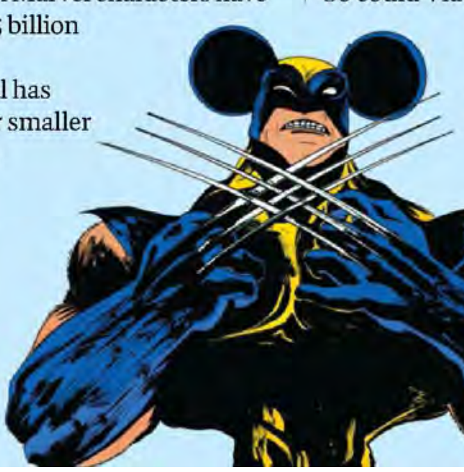
Shares of department stores J.C. Penney, Kohl's, Saks, and Macy's (page 13) are up more than 45% so far this year. Nordstrom has doubled, and Dillard's has nearly tripled. Stores have been cost-cutting, which has led to better-than-expected earnings. But now they'll need growth to keep valuations above pre-recession levels. And on Aug. 28, the Bureau of Economic Analysis reported that spending on nondurable goods fell in July. That may explain why, even as retailers rally, the cost to insure their debt against default rose 1.6%, a sign they're at greater risk. ¶ Of the group, Kohl's may be best positioned. It has kept inventories low while continuing to give customers what they want, says RidgeWorth Select Large Cap Growth Fund manager Joe Ransom, who expects Kohl's same-store sales to turn positive next quarter. At 51, it's not cheap, he says. "But the landscape is tilted toward them." *–Ben Levisohn*

HOLLYWOOD DEALS

WOLVER-MOUSE?

Walt Disney's $4 billion offer to buy comic book publisher Marvel Entertainment went over well with investors, who sent Marvel shares up 25% when the deal was announced on Aug. 31. Bringing Spider-Man and the X-Men's Wolverine into Disney's orbit should give the Mouse House a boost. Movies based on Marvel characters have grossed more than $2.5 billion in the past three years.

Analysts say the deal has ramifications for other smaller players in Hollywood, such as DreamWorks Animation SKG. The cartoon specialists, spun out of DreamWorks SKG studio in 2004, own such movie franchises as *Shrek* and *Madagascar*. "Disney's plan to buy Marvel ... will also make investors focus on the possibility of a similar outcome for DreamWorks Animation," Barton Crockett, an analyst at Lazard Capital Markets, wrote in a report after the news broke. Disney likely wouldn't be a suitor, with Marvel and Pixar in its stable. But Time Warner could be (page 26). So could Viacom, which might lose out on distribution fees of up to $60 million per movie it collects from Marvel, Crockett notes. Shares of DreamWorks Animation rose 5% on news of the deal, leaving them at a relatively modest price-earnings ratio of under 17. *–Aaron Pressman*



(FROM TOP) MARIO TAMA/GETTY IMAGES; JACOB THOMAS

LUXURY GOODS

NOT-SO-EASY RIDER

On Aug. 26 motorcycle giant Harley-Davidson announced it is expanding into India, where it plans to sell 12 luxury models priced at more than $15,000. But investors shouldn't get too revved up about the company's plans to tap the Indian market, says Jon Wolfenbarger, senior consumer analyst at RCM, an asset manager in San Francisco. The market for luxury bikes in price-conscious India, where cycles usually cost $1,000, is tiny, he says. Wolfenbarger does expect Harley to develop some cheaper bikes for India, but they'll still be at a premium to mass-market bikes.

At 23, the stock trades at 18 times next year's projected earnings, making it pricey based on its average 5- and 10-year price-earnings ratios. In the long run, though, a move into India is smart, since emerging markets make up just 2.5% of Harley's sales, and the company's core customers—U.S. baby boomers—are aging. But "it will be a long time before India impacts earnings," Wolfenbarger says. *–Lauren Young*

TURNING ON THE CORPORATE TAP

(FROM PAGE 018)

By Christopher Palmeri

Ever so cautiously, some businesses seem to be spending again. A handful of industries are even showing large increases in investment, among them health care, telecommunications, and financial services. To try to capitalize on any nascent pickup in corporate capital spending, investors can identify companies that are likely to be the beneficiaries of that money flow.

Some stock market strategists say early signs of loosening corporate purse strings mean now is the time to buy shares of tech behemoths, as well as industrial goods makers and transportation companies, that will see an uptick in orders as businesses bulk up again. "You want to be in trucking, heavy machinery, industrial companies, mining and minerals," says James Swanson, chief investment strategist at MFS Investment Management. "It's Old World industries and tech—a Jekyll and Hyde theme."

But with the iShares S&P Global Industrials Sector Index Fund, an exchange-traded fund loaded with big industrial companies, already up 60% from the stock market's March low, investment managers such as Arthur Moretti of the $900 million Neuberger Berman Guardian Fund prefer to look farther afield. Moretti scouts for companies that have invested in research and development and created proprietary products that will benefit from a rebound in business spending. His favorite holdings include Altera, whose programmable chips are used in medical equipment and industrial automation gear. He also likes Intuit. The company, best known for its TurboTax consumer tax preparation software, generates one-third of its sales from units that supply small businesses with payroll processing, accounting, and credit-card payment software. Intuit expects earnings per share to climb 10% to 16% for the fiscal year that just began.

Karl Mills, portfolio manager of the Counterpoint Select Fund, also tries to get in front of big waves of business investment. He figures companies will need to invest in wireless technology because it enhances productivity and because there's a natural cycle of obsolescence in technology that requires more spending. Some of his largest holdings are Cisco Systems, the king of Internet routers; data storage leader EMC; and Qualcomm, which owns much of the technology needed for next-generation wireless data services. Such companies are already big players, but in difficult markets "the stronger not only get stronger, they get much stronger," says Mills.

Since all of that new high-tech gear requires juice to run, Mills also thinks it is early days for a surge of investment in electricity generation and power-saving devices. To play that trend, the fund manager holds large stakes of General Electric, Siemens, and Swiss industrial giant ABB. | BW |

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FOLLOWING THE MONEY

These sectors and companies should attract increased capital spending, say fund managers

SEMICONDUCTORS

Chipmakers with proprietary products, such as Altera, could profit from a pickup in capital expenditures.

WIRELESS

Any technology that can enhance productivity, such as wireless, should benefit. Cisco, EMC, and Qualcomm should continue to do well.

POWER

Bigger outlays for tech may mean a greater need for electricity and power-saving devices, so GE, Siemens, and ABB could gain.

BIGGER SPENDERS

These Standard & Poor's 100 companies had double-digit hikes in capital spending in the second quarter of the 2009 calendar year, which could bode well for their suppliers

COMPANY/ TICKER	CAPITAL EXPENDITURES Q2 (MILLIONS)	YEAR-OVER-YEAR CHANGE
Altria/MO	$69	73%
Hewlett-Packard/HPQ	1,091	68
Merck/MRK	365	25
Exelon/EXC	732	19
Wal-Mart Stores/WMT	3,137	19
American Express/AXP	246	18
H.J. Heinz/HNZ	49	17
Amazon.com/ AMZN	78	13
Entergy/ETR	491	11

Data: Capital IQ, *BusinessWeek*

AUTO STOCKS

THRIVING IN DETROIT

By David Kiley

General Motors and Chrysler have been in and out of bankruptcy since April. Toyota Motor posted its first loss on vehicle-making operations since World War II ended. Even with a boost from the Cash for Clunkers program, auto sales are 27% below last year's levels. It hardly seems a fertile market for auto suppliers. But shares of some of the biggest names in the battered sector have been on a tear.

Beyond the bankruptcies of Chrysler and GM, as well as those of some high-profile suppliers and dozens of private companies that have liquidated, are a group of parts suppliers with relatively low debt that have been slashing costs, striking better labor agreements, and positioning themselves to be favored suppliers. Their dramatically lower breakeven points should lead to big profits when consumers return to showrooms. Investors are counting on it: Since May 27, the S&P Auto Parts & Equipment Makers index has risen 32%, while the Standard & Poor's 500-stock index is up 11.7%.

Some of the stocks have seen huge gains (table). But analysts say there are still opportunities. As the remaining automakers remove excess manufacturing capacity and sell more global vehicles that don't require a lot of reengineering for each market, industry fundamentals are changing to benefit the strong suppliers. Ford Motor, for example, which is making a big move to global vehicles, recently cut suppliers whose financials it deemed too risky. And KeyBanc Capital Markets analyst Brett Hoselton says parts makers clearing such hoops are beginning to see better prices and margins. Also helpful: The U.S., Brazil, and the European Union are mandating tougher safety and emissions standards. Costs to meet safety requirements could be $1,200 a vehicle, while fuel economy rules will result in thousands more in cost per vehicle. Much of that added cost would go to suppliers.

Tom Kolefas, portfolio manager of the TIAA-CREF Mid-Cap Value Fund, is investing in companies with low debt that are well positioned in safety and environmental technology. One is Autoliv, a leader in airbag and stability-control systems. It trades around 31, off from its 40.21 high last year, and its debt is 1.5 times cash and earnings before interest, taxes, depreciation, and amortization (EBITDA)—comparatively low for the sector. He also likes BorgWarner, which specializes in engine and transmission technology. At 29.82, it is well off its 43 high of a year ago. Its debt level is also 1.5 times its cash and EBITDA, and Kolefas says it has good revenue prospects because of rising demand for turbo chargers and other technology tied to high fuel efficiency.

Of course, if you invested in the highest fliers, the question now is: Time to sell? E. Keith Wirtz, chief investment officer at Fifth Third Asset Management in Grand Rapids, Mich., thinks that's a good idea after such runups, since he expects slow growth of auto sales. He makes an exception for TRW Automotive Holdings, though its stock has risen from 1.52 on Mar. 9 to 16.56. He likes its diversity of revenues across product lines and customers, and its growing business in China and other emerging markets. |BW|

MOVING TOO FAST?

COMPANY/TICKER	STOCK PRICE MAR. 9, 2009	STOCK PRICE SEPT. 1, 2009
American Axle & Manufacturing/AXL	$0.29	$5.56
ArvinMeritor/ARM	0.35	6.97
Tenneco/TEN	0.99	14.61
TRW Automotive Holdings/TRW	1.52	16.56

Data: Yahoo! Finance



GOING GREEN

A NO-CARBON PAYOFF

By Michelle Conlin

My author husband, Colin Beavan, decided in late 2006 that he wanted to stop writing about history and start writing about global warming. He was so excited about his idea—attempting to live for one year in the middle of New York City without making any negative environmental impact—that when he asked me to join him, I immediately went all wifely and lobbed back an effusive yes. When my best friend from childhood, filmmaker Laura Gabbert, later heard about No Impact, she begged Colin to let her and her partners film us. After they promised Colin to make as low-carbon a movie as possible, he agreed. His sustainably produced book—made from postconsumer recycled paper and chlorine-free cardboard, with energy supplied by biogas—is titled No Impact Man. *It hit stores Sept. 1. The documentary of the same name begins opening nationwide on Sept. 11.*

Truthfully, when I said yes to this Woody Allen-meets-Walden affair, I didn't fully think through what it would mean to live with a toddler and a dog in a one-bedroom, ninth-floor Manhattan apartment using no elevators, no electricity, no disposable diapers, no food grown more than 250 miles from home, no TV, no takeout, no beauty products, and no washing machine. Oh yes, and no buying anything; for the next year I would shop my own closet.

Little did I know that a year after the project's completion the global financial system would implode, or that the era of high-impact living—using one's house as an ATM, jetting off on a lark—would come to a spectacular and cataclysmic end. And here's the strange and unpredictable twist: Going No Impact for a year turned out to be sublime preparation for the post-subprime life.

In our 10 years together, Colin has bought himself three things: a second-hand cell phone, a used PC, and a folding bike. He bought me a diamond ring from a flea market. So no spending problems there. I, however, was an inveterate credit dipper. (As a last-chance binge before the project began, I indulged in a $900-plus pair of stiletto, knee-high Chloe boots. Then I had a moment of silence for my Sample Sale self.)

At first, the call of the stores was strong. Life on the hedonic treadmill is a habit—and I had to break it. Soon I started coming up with end-runs that gave me an even bigger high. Not buying anything new didn't mean I couldn't partake of Jane's Exchange, a children's consignment depot. We took our daughter, Isabella, there for her birthday, and I told her she could pick out anything she wanted. She chose a hardly-worn pair of princess slippers. Cost: $1.

We cut most other expenses, too. The Con Edison bill dropped to zero. Restaurants were out. But we did partake of the freegan lifestyle, eating bakery leftovers. Coffee was also verboten. There is no such thing as locally grown coffee—tragic for a girl who before going off the bean was averaging 20 shots of potent, iced Starbucks espresso deliciousness every beautiful day. On my last run, I blew through a $25 Starbucks gift card in a single workday. Withdrawal was ugly.

But thanks in part to cutting out all my bad habits, within a month, my debt was gone. We ended up cutting our discretionary expenses by at least 50%—often more. Honestly, when my paycheck started loitering around in my checking account, it actually felt uncomfortable.


JUDE BUFFUM

From my journal: "I CANNOT get my bank balance down for the life of me. I spend Nothing. As in NOTHING." Without knowing it, we were early adopters of what would become the new frugality. We even started giving away 10% of our money to charity.

The No Impact project also provided an opportunity to do a lifestyle redesign. In a nation of extreme commuters, mine was a micro-jaunt: Greenwich Village to Midtown Manhattan, 20 minutes door to door via subway. But Colin and I foreswore all modes of carbon-based transportation (except for *BusinessWeek* reporting trips). Not because we are against mass transit. But because the point of the project was to be radical: to go completely off the grid, drop out of the culture, and see what would emerge.

At first I walked the 40 blocks to and from my 750-square-foot nanoplex. But this was taking too much time away from my then 2-year-old. So I started to use a push scooter. The scooter itself became a workplace *objet fixe*. It was irresistible to my colleagues, who swiped it to vroom up and down the halls à la *Romper Room*. I had long been too tired—from not working out—to get to the gym to work out. But by exchanging my time on the subway for a self-propelled commute, I dropped 10 pounds; my new locavore diet didn't hurt either. I had the energy of a supermom in my slacker mom's body. My insomnia evaporated—the scooter was No Impact Ambien. My palate also began changing. The local food, though heavy on the parsnips, began to taste delicious. Three months in, I started getting through the day without the usual afternoon Dunkin' Donuts high followed by the crash. The pastry mania and shame hangovers were gone. My pre-diabetic condition vanished.

Work was my fast life. Home was my slow life. No lights, no cell phones, no TV. I know it sounds like deprivation. But the truth is that when I opened the door to the No Impact house at night, I felt like I was walking into a vacation. The days felt like they lasted forever. No Impact was a great ritual destroyer. What I realized was that so many of my rituals were so bad for me (my health), for us (our bank account and all the family time lost to my scurrying off to shop), and for the environment. What I learned from No Impact was that there is a steep cost to supporting all your stuff. To a life devoted to getting and having. In my days of high consumption, I'd been searching for something. It turned out that it was right in my own home. |BW|



50%

Amount the No Impact family cut their spending

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For an online special report about *No Impact Man*—including an essay on No Impact takeaways for business, a book excerpt, clips from the documentary, and a video with the No Impact family—go to www.businessweek.com/go/09/noimpact.

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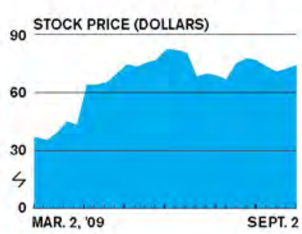
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A RIPER BLACKBERRY

When Research In Motion was featured in this space in April, its stock (RIMM) was at 60 a share, up from 35 in March. It has since jumped higher, to 73.91, reflecting a continuing surge in sales and margins at the maker of the BlackBerry smartphone despite the economic slump. So some pros are asking: Is RIM now peaking?

RESEARCH IN MOTION: MOVING UP



Data: Bloomberg

Hardly, say some savvy investors, citing the rosy outlook for phones that make calls while handling e-mail and other functions. "We like RIM because smartphones will be a strong growth business for many years," says William Harnisch, CEO of investment firm Peconic Partners, which owns shares. RIM, along with Apple, will remain the leaders, he says. Peconic owns both stocks, but Harnisch sees more potential in RIM. Despite RIM's rise, it is still 50% below the 148 it hit in 2008, when it earned $2.28 a share. For 2009, he forecasts $4.20 and sees the stock at 125 in 12 months. Harnisch expects RIM's profits to climb 20% a year for the next five years.

Mike Abramsky of RBC Capital Markets rates RIM outperform, with a 12-month target of 150. RIM (a client) "is poised for long-term smartphone leadership," with more innovations, says Abramsky, who sees profits of $4.26 a share for fiscal 2010 (ending Feb. 28) on sales of $16 billion, $5.43 in 2011 on $20.1 billion, and $6.40 in 2012 on $25.8 billion.

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CLEANING UP AT STERIS



Data: Bloomberg

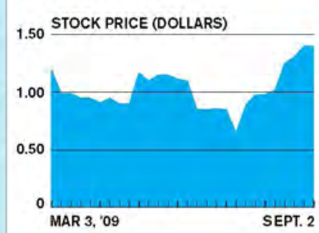
Steris Fights Infection Fears

Steris (STE) does the dirty work of cleaning up at many hospitals, medical labs, and food companies. As the leading provider of sterilizers and anti-infection products, Steris has watched demand for its products and services rise sharply. "Despite tough macro conditions, its bottom line keeps beating forecasts," notes Shawn Fitz of investment firm Stephens, who rates Steris overweight.

The shares climbed from 19 in March to 28.31 on Sept. 2. "Rising fears about emerging diseases, such as swine flu, should escalate demand for Steris' products," says Elliott Schlang of Soleil Securities, who sees the stock at 36 in a year. He predicts profits of $2.20 a share for fiscal 2010, ending on Mar. 31, vs. $1.90 for 2009.

Terry Morris of National Penn Investors Trust puts Steris' intrinsic worth at 51, based on an estimated 12% annual earnings growth over the next three to five years.

AXION'S MATERIAL ADVANCES



Data: Bloomberg

The Power of Recycled Plastic

Axion International Holdings (AXIH) may have achieved a breakthrough with recycled plastic. At Fort Bragg, N.C., a 70-ton M-1 Abrams tank, too heavy for many bridges, repeatedly crossed a bridge made of Axion's 100% recycled plastic. "Bridges built with plastic are less costly than wooden ones," says Axion CEO James Kerstein.

With technology developed in collaboration with Rutgers University, Axion makes structural products, including railroad crossties, with recycled plastic. Patrick Murphy of Murphy Analytics, who rates Axion (a client) a buy, says bridges and rail alone represent potential sales of $1 billion. His target for Axion, now trading at 1.40 a share, is 4.

David Stefansky of Harborview Master Fund, which owns shares, says Axion's technology is "very timely in the recycling of waste plastics to help protect the environment." |BW|

BRAD TRENT; CHARTS BY DAVID FOSTER

074 Media Centric
075 Books
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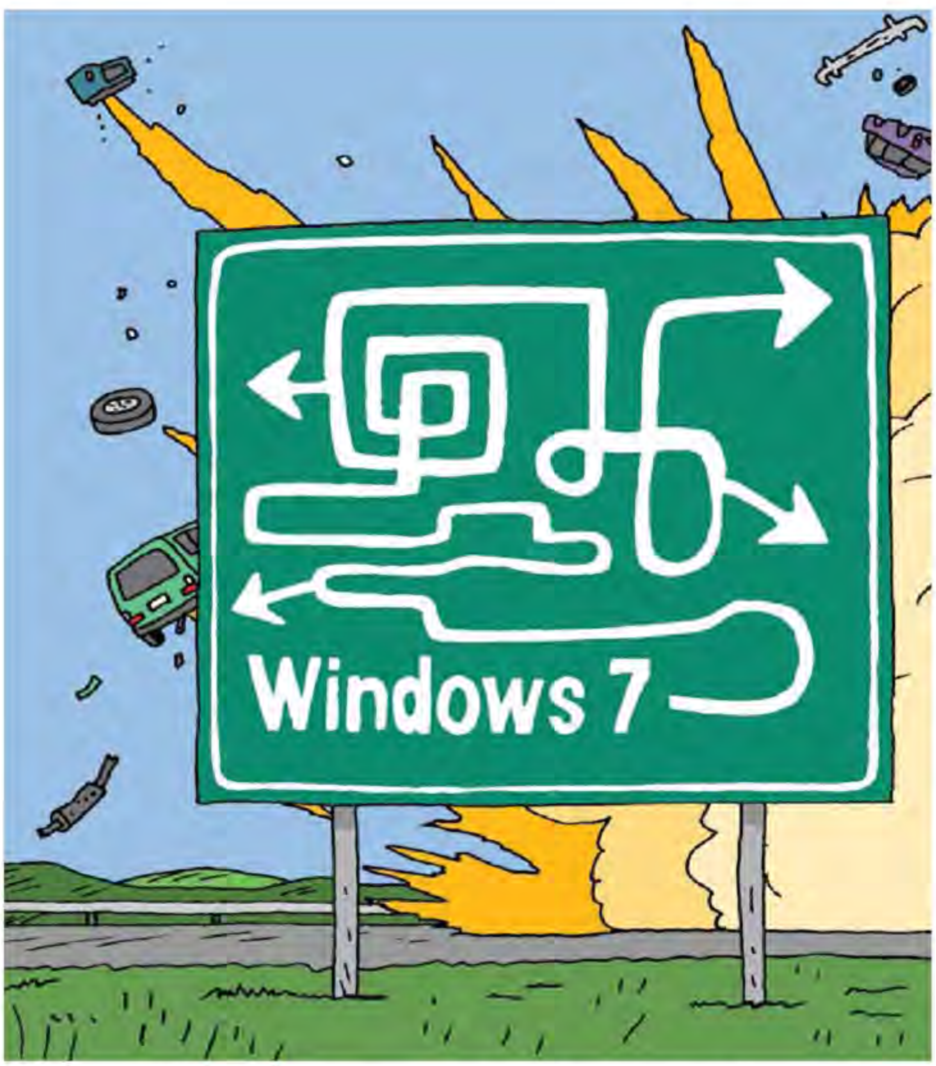
BUSINESS VIEWS

TECH & YOU | STEPHEN H. WILDSTROM



Win 7: It's Hard to Get There From Here

Without a new computer running Vista, upgrading to Windows 7 will be a pain



(FROM TOP) BRAD TRENT; ILLUSTRATION BY PETER ARKLE

Windows 7 is the best operating-system offering from Microsoft in many years, so when it hits the market on Oct. 22, folks who bought PCs anytime in the last three years or so should be prime candidates for an upgrade. But a lot of them are likely to find the upgrade process surprisingly frustrating.

If you are running Windows XP or any flavor of Vista, which is to say virtually any PC, you qualify for Microsoft's discounted upgrade pricing. The cost varies with the operating system you're coming from and the version of Win 7 you're moving to, but the most common jump, from Vista Home Premium to Windows 7 Home Premium, will set you back $120.

The trouble starts with the installation. Microsoft calls the sort of setup most people will want an "in-place upgrade." You put in the installation DVD, enter an authentication code from the package, and after 45 minutes or so, your Win 7 system is ready to go with your programs, settings, and data as they were. I have gone through this drill on several systems, and it is generally painless.

But many people won't be able to use this method. It's available only if you are already using Vista. And you must have 16 to 20 gigabytes of free disk space, which may be a challenge, especially on ultralight systems with solid-state drives. (I could not upgrade a Lenovo ThinkPad with a 64 GB SSD drive because I couldn't free up enough space.) What's more, if you have a 32-bit version of Vista—almost certainly the case if your system is more than about nine months old—you'll be stuck with a 32-bit version of Win 7. More on the significance of that in a moment.

If you can't do an in-place upgrade, you'll be forced into a "custom install," a far more difficult process. Your data will be left intact, but plan on spending

FLAVORS OF WINDOWS 7

If you decide to upgrade to Win 7 from XP or Vista, here are some options and what they will cost:

WINDOWS 7 VERSION*	UPGRADE PRICE	INTENDED USE
Home Premium	$119.99	This is the version most consumers will want. It has all the features of Vista Home Premium, including Windows Media Center.
Professional	$199.99	Has all the features of Home Premium plus the ability to log in to a corporate Windows domain and to run programs in a special XP compatibility mode (requires compatible hardware).
Ultimate	$219.99	Has everything in Home Premium and Professional, plus disk encryption and the ability to switch languages.

*All are available in either 32- or 64-bit versions.

hours reinstalling all of your applications, meaning you'll have to dig out the original software disks, the Web addresses of download sites, and all your installation keys.

Microsoft says it isn't offering an easy in-place upgrade from Windows XP systems because the bulk of such computers are too old and underpowered to run Win 7. It can't prevent unsuitable upgrades, but it wants to discourage them. Microsoft also realizes some users will face hardware and software incompatibilities with Win 7, which it would like to avoid. (There were such problems going from XP to Vista.) The odd thing is, Microsoft offers free software that tells you if your machine will run into incompatibilities—say whether it will work with your old printer. Why doesn't the company just let customers use this tool rather than throwing up roadblocks?

WHAT'S MICROSOFT THINKING?

Now let's go back to 32-bit vs. 64-bit, a reference to the amount of data and instructions the processor can gobble at one bite. Almost all new PCs sold in the last three years have fast, 64-bit hardware. When Vista first came out in 2007, some programs and a lot of accessories, such as printers and scanners, couldn't work with the 64-bit version, so the 32-bit Vista was almost universally installed. Most of those problems have been resolved, and since last fall manufacturers have been installing 64-bit Vista by default on most systems. But any machine more than about nine months old probably came with 32-bit Vista or XP, which means it's subject to the same limits as older PCs. The most important limit: 32-bit systems can't take advantage of more than 3 gigabytes of memory even if, as is often the case, more physical memory is installed.

Normally, adding memory is the cheapest way to boost performance, especially if you run lots of programs simultaneously or keep a lot of browser windows open. Now, many users with state-of-the-art hardware face a cruel choice between accepting the constraints of 32-bit Win 7 or reinstalling all of their applications.

It's not at all clear why Microsoft made its upgrade options so restrictive. In effect, it is telling its customers to move to Windows 7 only when they buy a new computer. The company has no financial motivation for doing this, since it makes more money selling $120 retail copies to upgraders than it gets from manufacturers licensing Windows on new systems. And even computer makers who should be pleased with customers being given an incentive to buy new equipment are less than thrilled: They know that complaints about the difficulty of upgrading PCs sold last year are more likely to land on their doorsteps than on Microsoft's.

I'm baffled that Microsoft gave us no better alternatives. Fortunately, there is a third-party solution: Laplink Software's PCmover is designed to ease the pain. I will review it when it's available, and I hope it does the job. Windows 7 offers some real improvements, which I'll describe in a future column. It would be a pity if Microsoft's retrograde upgrade and self-defeating support place Win 7 beyond the easy reach of most users. |BW|

Business Exchange

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Biting Into 64 Bits

Although the ability to use large amounts of memory is the main reason to go for 64-bit Windows, there are a number of other considerations in choosing which versions of the software you want to run. Microsoft provides answers to many issues in "32- and 64-bit Windows: Frequently Asked Questions." Although this online guide focuses on Vista, the information is equally applicable to Windows 7.

For more information on Microsoft's new operating system, go to **http://bx.businessweek.com/windows-7/reference/**

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FOCUS on driving.

Meredith's Moment



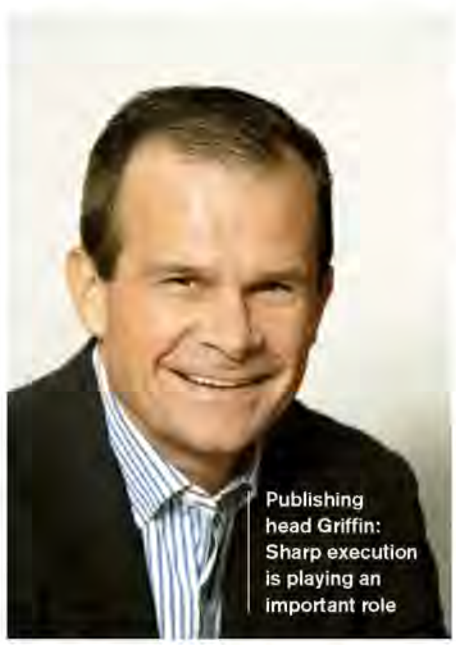
Its ad-revenue declines are narrowing, and its share in the magazine market is growing

A certain kind of article is written every so often about Meredith, the Des Moines company that owns 25 magazines and 12 television stations. It goes something like this: "Media companies are supposed to be all big-city and urbane! Meredith isn't! But it's doing better than all the city slickers!" This is another one. But I can't help it, because the data points compel it.

Meredith, which derives 80% of its $1.4 billion in revenue from its hearth-y and home-y magazines such as *Better Homes & Gardens, Ladies' Home Journal*, and *Family Circle*, is substantially outperforming its print-based competition. (Its TV stations are stuck in that industry's morass, though, with ad declines topping 20% in its most recent quarter.) In June and July, according to a report from JPMorgan Chase analyst Michael Meltz, overall ad pages for the company rose 6% and 10%. Meanwhile, in the quarter ended on June 30, the magazine industry's overall pages declined 29.5%.

"A lot of food companies are talking about a mass, middle-of-the-road consumer," says George Janson, a managing partner at media-buying firm mediaedge:cia, and Meredith's stable "is the bull's-eye" for such folk. Ad revenues were down 11% in the first six months of 2009, which is not great but nevertheless a distinct improvement on its 18% decline in the previous six months. (And, compared with the rest of print, 11% down is the new 11% up.) The company is expecting ad performance to improve further in the current quarter. It may turn out that the road out of the downturn is located pretty close to Des Moines.

Meredith's current moment is happening in part because it missed out when others feasted. Meredith's mags never grew fat on luxury ads or during any tech boom, and car ads occupy an unusually small percentage of its pages compared with other major magazine companies. It also got some pain out of the way early, as its '09 improvement over '08 testifies. Jack Griffin, Meredith's publishing head, says this happened because home-related advertising began to tank in late '07, and that category disproportionately affects Meredith. (*Better Homes & Gardens* also benefits from the housing bust taking down several also-rans in that space, including Meredith's *Country Home*, which closed in January amid significant company layoffs.)



Publishing head Griffin: Sharp execution is playing an important role

But Meredith has also made some savvy moves of late. It's testing a new food magazine, *Mixing Bowl*, an offshoot of a company-owned Web site for which users create most of the content. It also has ramped up staffing of Meredith 360, which offers advertisers complex deals across the company's print and Web portfolio (an area in which it had arguably lagged behind bigger competitors such as Hearst Magazines and Time Inc.) This has helped it win ad share; its take in the overall US magazine ad market went from 10.1% to 12.8% in its last fiscal year, which ended on June 30. "Two years ago [Meredith 360] wasn't meaningful, and today it's an engine," says Griffin. The group now brings in the bulk of Meredith's cross-platform sales, which account for around 15% to 20% of magazine ad revenues.

Comments from Griffin in the company's most recent earnings call about "pricing appropriately" to "attract [ad] volume" also make it clear that some share gains stem from offering discounted ads. But a report by Meltz held that the company's ad pricing fell only 2% to 3%. (A Meredith spokesman says revenues per ad page were flat in the company's fiscal 2009.)

Still, even Meltz's calculus suggests that the company is cutting rates pretty judiciously. For its current quarter, Meredith has told analysts that publishing ad-revenue declines will abate further, to be down only in the mid-single digits from 2008. Much of this has to do with the magazines Meredith owns, which have largely avoided the land mines lurking in the landscape. And not all of the story is rosy: Virtually all major Meredith titles posted serious newsstand sales declines in the first half of '09. But the way Meredith is outperforming other contenders suggests that sharp execution is playing a significant role. In any event, Meredith's arrows are pointing in a direction—up—long unfamiliar to its competition and its industry. |BW|

BUSINESSWEEK.COM

For Jon Fine's blog on media and advertising, go to businessweek.com/innovate/FineOnMedia.

(TOP) BRAD TRENT

A Peek Under the Hood of a Business Book

Research that was questioned is being revised, but there's no fix for self-evident conclusions

In *Women Want More*, Senior Partner Michael J. Silverstein and Partner Kate Sayre of Boston Consulting Group, plus writer John Butman, set out to explain how to market to female shoppers. But their work unintentionally raises a pair of important questions: How rigorous does research for business books need to be? And does it matter if the authors have much that's original to say?

Silverstein and Butman, along with co-author Neil Fiske, have already written a hit in the genre, *Trading Up* (Portfolio), regarded as an essential primer on luxury marketing that made *BusinessWeek*'s list of business best sellers in 2004. In a book-jacket blurb for *Women Want More*, meanwhile, no less a figure than Indra Nooyi, the chief executive of PepsiCo, a BCG client, calls it "truly inspirational."

Silverstein and Sayre begin by saying they've surveyed more than 12,000 women and profiled 50 companies. They compare this research with the inquiries of Alexis de Tocqueville, the 19th century writer who toured the U.S. and gave us *Democracy in America*. But *Women Want More*'s research raised doubts, and the questions *BusinessWeek* put to the authors about it have prompted an amended version of the book that could be in stores, according to publisher HarperCollins, within days of the first printing.

The book's main conclusion is that as more women balance a job with child-rearing, they struggle to find free time. Women, they conclude from their survey, are happiest in their youth and old age and most unhappy during the long and busy part in between. Companies that figure out ways to save those female customers a few extra minutes will earn a disproportionate amount of the women's business. That's hardly an enlightening point: Companies have marketed time-saving devices to women for decades.

But then, most of the book's conclusions tilt toward the obvious. One is that women like clothing that flatters them (a preference called "silhouette management" and "best-feature optimization"). Another is that women won't pay prices they think are too high (shoppers use a "personal value calculus"). And we are told a majority of pet-owning women like their pets.

Back to the quality of the research. A description of the British department store Selfridges in 1909 matches almost word-for-word a Wikipedia entry about the store's founder, Harry Gordon Selfridge. When asked, the authors responded via e-mail that the passage was "slightly rewritten from [the] Wikipedia entry," but they say they also consulted other sources.

A Google-assisted survey of the book turns up other oddities. In a section on Japan, the authors discuss Nagata Mitsuko, described as a 29-year-old in Tokyo with a degree in French literature who feels pressured to marry. This character appears to be drawn—without attribution—from a paper by anthropologist Karen Kelsky, published nine years ago in the journal *Intersections: Gender, History and Culture in the Asian Context*. In fact, the "Mitsuko" in the journal article is a pseudonym for a woman interviewed in 1993. The authors say their Mitsuko is a composite character.

Many of the book's assertions tilt toward the obvious. For instance, the authors say women prefer clothing that flatters them

Elsewhere, *Women Want More* has footnotes that mystify more than they clarify. One vignette describes "Ashanti Vree," a retiree thinking about starting a personal shopping business. A footnote cites a *New York Times* blog. The words describing the retiree in the book are almost verbatim from the blog, except that the name "Ashanti Vree" is substituted wherever blogger Marci Alboher referred to "my mom." Alboher's mother is not named Ashanti Vree.



***Women Want More; How to Capture Your Share of the World's Largest, Fastest-Growing Market* by Michael J. Silverstein and Kate Sayre with John Butman (HarperCollins); $27.99**

An honest error, say the authors. In the second printing, they say, they plan to remove the pseudonym and give credit for the quotes to Alboher. The authors say they'll rename Mitsuko to avoid confusion with Kelsky's interviewee, rewrite the Selfridges passage, and explain which women are real, which have pseudonyms, and which are composites, among other changes.

Fair enough. Still, these kinds of glitches, on top of the unimaginative analysis that runs through much of *Women Want More*, add up to a disappointing performance by Silverstein and Sayre, two senior executives at a respected consulting firm. |BW|

–*With John Cady*

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THE CASE FOR OPTIMISM?
PHOOEY!

Cheerless readers mostly harrumphed at our Special Report on "The Case for Optimism" (Aug. 24 & 31), which argued, in part, that rational optimism can open one's mind to opportunities. While some commenters agreed that "optimistic, engaged employees" are more productive ("Is Optimism a Competitive Advantage?" by Michelle Conlin), more seemed to embrace the spirit of our counterpoint essay: "The Case for Pessimism," by Patricia Pearson. *–Peter Coy*

Until we see the millions of American workers who are unemployed or are being furloughed returning full-time to the civilian labor force, there is no case for optimism. The recent rise in stock prices as a precursor to a full recovery is a snare and a delusion, with the recession in full swing.

Nelson Marans
SILVER SPRING, MD.



The articles in the optimism issue are alarming—they seem to accept that the manufacturing of products will continue to move offshore, as will engineering and R&D. What is the case for optimism? That we will innovate with more social networks and search engines? Without the return of high-level manufacturing and engineering jobs, the U.S. won't recover.

Tom Sloan
HOLLYWOOD, FLA.

Optimism is built on a track record of overcoming obstacles.

Screen name: Terry Paulson

I'm the guy who believes every silver lining has a dark cloud behind it. That fools rush in and start filling up the whiteboard. That left to themselves, things go from bad to worse. Then again, I made a small fortune in the market in '07 and '08 because I saw the iceberg and jumped while everyone else was partying hearty. (Yes, I shorted.) There are ways to be creative and point out the negatives at the same time.... Suggest practical solutions (yes, be positive about your negativity). Once [people] realize they'll be more successful with you than without you, both you and your negativity will actually be sought out.

Screen name: Jack Heismann

STOCK BUYBACKS
DO SHAREHOLDERS REALLY BENEFIT?

In "The Buyback Boondoggle" (Outside Shot, Aug. 24 & 31), William Lazonick gives a one-sided view of stock buybacks. His assertion that CEOs prop up their share prices with buybacks is unfair and myopic. There is a sound economic rationale for such investments: to reduce a company's equity base so shareholders will control a greater proportion of future earnings. Typically, repurchases are made using excess cash when there are no higher-return options. They're also made to offset dilution created by issuing stock options as compensation. It's hard to see how this impedes investment in research or infrastructure.

David Collins
NEW YORK

Boondoggle is a mild description for the way companies buy back their stock and claim this is returning value to shareholders. As an active investor, I have always wondered why there isn't more of an outcry over this.

Sidney Goldman
STAMFORD, CONN.

HEALTH-CARE REFORM
CONGRESS NEEDS A SECOND OPINION

It was stunning to read in "Why Health Insurers Are Winning" (In Depth, Aug. 17) that members of Congress are getting their "facts" on health-care reform from UnitedHealth. That's like turning your house keys over to a serial burglar.

David Buchmueller
EL PASO

CORRECTIONS & CLARIFICATIONS

"The Most Powerful Banker You've Never Heard Of" (In Depth, Sept. 7), about Citigroup Vice-Chairman Lewis Kaden, mistakenly said that former Citi CFO Gary L. Crittenden stepped down in July of this year; he did so in March. The article also erred in saying Citi hired Edward J. Kelly III in January 2008 to run its Alternative Investments unit. He was hired in February of that year to head up strategy. Also, after serving as Citi's CFO, Kelly was named vice-chairman; he was not shifted back to his original position at Citi. He previously worked as general counsel for J.P. Morgan, not JPMorgan Chase. Finally, Kelly did not refer to the Federal Deposit Insurance Corp. as a second-rate agency. He called the FDIC a "tertiary regulator."

(COVER, HEAD OF OSTRICH) BRIAN STABLYK/GETTY IMAGES; (BODY OF OSTRICH) GETTY IMAGES

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BusinessWeek (USPS 080 900)

SEPTEMBER 14, 2009 (ISSN 0007-7135) S T O ISSUE NO. 4146

Published weekly, except for one issue in January, February, March, July and August by The McGraw-Hill Companies, Inc. **Founder:** James H. McGraw (1860-1948). Periodicals postage paid at New York, N.Y., and at additional mailing offices.

Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000.

Postmaster: Send address changes to BusinessWeek, P.O. Box 8418, Red Oak, IA 51591-1418. Canada Post Publication Mail Agreement Number 40012501. Return undeliverable Canadian addresses to DHL Global Mail, 355 Admiral Blvd-Unit 4, Mississauga, ON L5T 2N1. Email: bwkcustserv@cdsfulfillment.com

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Acting the Part of a Leader

Why greatness is often paired with theatricality—and can emerge so suddenly

The first time Franklin Delano Roosevelt met Orson Welles, the President graciously said: "You know, Mr. Welles, you are the greatest actor in America." "Oh, no, Mr. President," Welles replied. "You are." ¶ The point is vital, even if the story is apocryphal. Consider the actorly attributes they shared. Both were masters of the medium of radio—Roosevelt reassured the nation with his Fireside Chats; Welles scared listeners out of their wits with his *War of the Worlds* broadcast. Both men used wardrobe and props—Welles had his rakish hats, FDR his cape and cigarette holder—to create dashing images despite their physical imperfections.

A star succeeds by engaging audiences. Similarly, a leader succeeds only when followers share his or her vision. Leaders have the ability, as playwright Arthur Miller observed, "to find the magnetic core that will draw together a fragmented public." An analysis of great political speeches would reveal a wealth of skillfully brandished plural personal pronouns—such as Winston Churchill's assertion that "we shall never surrender."

As for how leaders emerge, I defer to the guru from Stratford-upon-Avon. In Shakespeare's *Twelfth Night*, Malvolio, tangled in his cross-garters, pronounces: "Some men are born great, some achieve greatness, and some have greatness thrust upon them." Like so many comic moments, this one is packed with truth. But don't assume these three paths get equal traffic.

Most leaders acquire greatness when a role requiring it is thrust upon them. Look at the stature and number of leaders forged in the American Revolution: Washington, Jefferson, Adams, Franklin, Madison, and Hamilton spring to mind. A few years back, as we did research for our book *Geeks & Geezers*, co-author Bob Thomas and I interviewed the late John W. Gardner. The only Republican in Lyndon Johnson's Cabinet, Gardner was a reticent, even shy man who helped create such groundbreaking organizations as Common Cause. To his surprise, he discovered during World War II that he was a gifted manager. Until then, he didn't respect managers—but once cast as one, he thrived. Gardner vividly explained how role and talent can converge to produce greatness. In his case, "some qualities were there waiting for life to pull those things out of me." No doubt many potential leaders never land the roles that would pull greatness out of them.



The late Oscar-winning director Sydney Pollack once told me that he was at a loss when he first moved behind the camera, so he simply acted like a director. "I even tried to dress like a director—clothes that were kind of outdoorsy," he said.

That raises crucial questions about leadership and acting: Can a leader be authentic, or do the masks of command force the leader to be something other than his or her true self? Can a leader both act and be real? These are questions with no easy answers. But the feeling of not being up to the job, the belief that the role is too big, is something every leader has felt. It is evidence that the role is greater than the individual—and thus worth taking on. Pollack made the leader's requisite leap into the unknown, accepting the risk of failure that is the first step in becoming a leader—and he excelled.

That adaptive capacity is the most important attribute in determining who will become a leader. It's also the defining trait of the best actors. Inhabiting roles other than the one most of us think of as self is essential to both. So is the empathy needed to project yourself into someone else's skin. FDR and Churchill seem to have known our fears better than we did and addressed them before we had articulated them.

Like great actors, great leaders create and sell an alternative vision of the world, a better one in which we are an essential part. Philosopher Isaiah Berlin wrote that Churchill idealized his countrymen with such intensity that in the end they rose to his ideal. Mahatma Gandhi made India proud of herself. Washington and the other Founding Fathers shared that great leader's gift of making people believe they could be—and were—part of a great nation. Martin Luther King Jr. had that same genius. When you consider such towering and theatrical leaders, you realize leadership may be the greatest performing art of all—the only one that creates institutions of lasting value, institutions that can endure long after the stars who envisioned them have left the theater. |BW|

Excerpted from The Essential Bennis *by Warren Bennis with Patricia Ward Biederman. Bennis is Distinguished Professor of Management at the University of Southern California and founding chairman of the Leadership Institute.*

Jack and Suzy Welch are off this week.

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